

1-1-2004

Checklists and illustrative financial statements for defined contribution pension plans : a financial accounting and reporting practice aid, July 2004 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Linda Delahanty

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_indev

 Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Accounting and Auditing Publications and Delahanty, Linda, "Checklists and illustrative financial statements for defined contribution pension plans : a financial accounting and reporting practice aid, July 2004 edition" (2004). *Industry Guides (AAGs), Risk Alerts, and Checklists*. 1003.

https://egrove.olemiss.edu/aicpa_indev/1003

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Industry Guides (AAGs), Risk Alerts, and Checklists by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

July 2004 Edition

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEFINED CONTRIBUTION PENSION PLANS

*A Financial Accounting and
Reporting Practice Aid*

Edited By
Linda Delahanty, CPA

Technical Manager,
Accounting and Auditing Publications

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

July 2004 Edition

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEFINED CONTRIBUTION PENSION PLANS

***A Financial Accounting and
Reporting Practice Aid***

Edited By
Linda Delahanty, CPA

Technical Manager,
Accounting and Auditing Publications

*Checklists and Illustrative Financial Statements
for Defined Contribution Pension Plans* has not been
approved, disapproved, or otherwise acted upon
by any senior technical committee of the
American Institute of Certified Public Accountants
or the Financial Accounting Standards Board
and has no official or authoritative status.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

Copyright © 2004 by
American Institute of Certified Public Accountants, Inc.,
New York, NY 10036-8775

All rights reserved. Checklists and sample documents contained herein may be reproduced and distributed as part of professional services or within the context of professional practice, provided that reproduced materials are not in any way directly offered for sale or profit. For information about permission to copy any part of this work for redistribution or inclusion in another document or manuscript, please call the AICPA Copyright Permissions Hotline at (201) 938-3245. A Permissions Request Form for e-mailing requests is available at www.aicpa.org by clicking on the copyright notice on any page. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.

1 2 3 4 5 6 7 8 9 0 AAP 0 9 8 7 6 5 4

ISBN 0-87051-510-1

TABLE OF CONTENTS

	PAGE
Checklists and Illustrative Financial Statements for Defined Contribution Pension Plans	1
Instructions	9
Financial Statements and Notes Checklist	11
Auditors' Report Checklist	33
Illustrative Financial Statements and Auditor's Reports	43

FSP Section 8000

Checklists and Illustrative Financial Statements for Defined Contribution Pension Plans

New Employee Benefit Plan Audit Quality Center

The AICPA launched the Employee Benefit Plan Audit Quality Center (the Center) this year, a firm-based voluntary membership center for accounting firms that audit employee benefit plans. The Center's primary purpose is to promote the quality of employee benefit plan audits. More than 500 firms have already joined the center. For more information about the Center and how to join visit www.aicpa.org/ebpage.

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution retirement plans, and health and welfare benefit plans (both defined benefit and defined contribution). Defined contribution retirement plans provide an individual account for each participant and provide benefits that are based on (a) amounts contributed to the participant's account by the employer or employee, (b) investment experience, and (c) any forfeitures allocated to the account, less any administrative expenses charged to the plan. These plans include profit-sharing plans, money purchase pension plans, stock bonus and employee stock ownership plans (ESOPs), thrift or savings plans including 401(k) arrangements, and certain target benefit plans.

.02 Defined contribution retirement plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). In the context of this checklist, reference to defined contribution plans refers to defined contribution retirement plans only and does not include health and welfare benefit plans (see the separate publication, *Checklist and Illustrative Financial Statements for Health and Welfare Benefit Plans*, that includes both defined benefit and defined contribution health and welfare benefit plans).

Regulatory Requirements

.03 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the DOL and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements. (Appendix A of the Audit and Accounting Guide *Employee Benefit Plans* describes which plans are covered by ERISA.)

.04 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL and the IRS. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC (Pension Benefit Guaranty Corporation), may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA. (See FSP section 8000.17–20 for a discussion about the Form 5500.)

Form 11-K Filings

Practice Tip

SEC Requirements

The Securities and Exchange Commission (SEC) requires employee stock purchase, savings and similar plans with interests that constitute securities registered under the Securities Act of 1933 to file Form 11-K pursuant to Section 15(d) of the Securities Exchange Act of 1934. Reports on Form 11-K must be filed with the SEC within 90 days after the end of the fiscal year of the plan, provided that plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) file the plan financial statements within 180 days after the plan's fiscal year end.

Applicable Audit Standards

Plans that are required to file Form 11-Ks are deemed to be "issuers" under the Sarbanes-Oxley Act and must submit to the SEC an audit in accordance with the auditing and related professional practice standards promulgated by the Public Company Accounting Oversight Board (PCAOB). These plans may also be subject to ERISA and must submit to the U.S. Department of Labor (DOL) an audit in accordance with generally accepted auditing standards (GAAS) promulgated by the AICPA's Auditing Standards Board. It is our understanding that the SEC will not accept an audit report that references GAAS, and the DOL will not accept an audit report that does *not* reference GAAS.

Performance and Reporting Requirements

Based on AICPA staff discussions with the SEC and PCAOB staff to seek clarification of the performance and reporting requirements for audits of 11-K filers, *firms will need to conduct their audits of these 11-K plans in accordance with two sets of standards and prepare two separate audit reports; an audit report referencing PCAOB standards for Form 11-K filings with the SEC and a separate audit report referencing GAAS for DOL filings.* The PCAOB and SEC staff believe that an opinion issued in accordance with PCAOB Auditing Standard No. 1 does not allow a reference to GAAS, hence a "dual" standard report is not appropriate and will not be accepted by the SEC.

Any questions regarding performance and reporting requirements of audits of financial statements of Form 11-K filers should be directed to the SEC Division of Corporation Finance, Office of the Chief Accountant at (202) 942-2960.

.05 Some defined contribution plans are required to register and report to the Securities and Exchange Commission (SEC). When securities are registered (typically on Form S-8) to be offered to employees pursuant to any employee benefit plan, the plan is required to file annual reports to the SEC on Form 11-K. Regulation S-X prescribes the form of the statements of financial position and statements of income and changes in plan equity that those plans must file with the SEC. The SEC has amended its rules for Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than Regulation S-X. It is important to note however that "limited scope" audits or financial statements prepared on an "Other Comprehensive Basis of Accounting" (OCBOA), such as the modified cash basis, which are generally acceptable under ERISA regulations, are not considered acceptable for SEC filings. In addition, financial statements in accordance with ERISA included in an 11-K filing are due within 180 days after the plan's fiscal year; an 11-K filing which includes financial statements under Regulation S-X are due within 90 days after the plan's fiscal year.

.06 On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the Act). The Act dramatically affects the accounting profession and affects not just the largest accounting firms, but any CPA actively working as an auditor for a publicly traded company or any CPA working in the financial management area of a public company. The Act contains some of the most far reaching changes that Congress has ever introduced to the business world. Although most of the provisions of this legislation are specific to auditors of public companies, even practitioners not performing audits may be affected by the Act. Therefore, all CPAs should become familiar with the provisions of the Act and the Public Company Accounting Oversight Board (PCAOB).

.07 Subject to the SEC oversight, Section 103 of the Sarbanes-Oxley Act (Act) authorizes the PCAOB to establish auditing and related attestation, quality control, ethics, and independence standards to be used by

registered public accounting firms in the preparation and issuance of audit reports as required by the Act or the rules of the SEC. Accordingly, public accounting firms registered with the PCAOB are required to adhere to all PCAOB standards in the audits of issuers, as defined by the Act and other entities when prescribed by the rules of the Commission. Generally, plans that are required to file Form 11-K would be considered issuers.

.08 Major provisions impacting employee benefit plans that file Form 11-K include the following:

- Auditors of public companies are required to register with the PCAOB. This includes auditors of employee benefit plans whose plan sponsors file annual reports on Form 11-K with the SEC.
- Auditor independence¹
 - Section 201—*Services Outside the Scope of Practice of Auditors*—The independence provisions of the Act and the SEC rules prohibit a registered firm from performing specified non-audit services for audit clients that file with the SEC. Nonaudit services are services other than those provided in connection with an audit or a review of the financial statements.
 - Section 202—*Pre-Approval Requirements*—The rule requires an audit committee to establish policies and procedures for the pre-approval of services to be provided by the auditor. Pre-approval policies and fee disclosures are effective for fiscal years ending after December 15, 2003.
 - Section 203—*Audit Partner Rotation*—To maintain independence, partners must rotate after serving for five consecutive years and are subject to a five-year “time out” period after the rotation. This requirement also includes concurring review partners and extends to both Form 11-Ks as well as other benefit plans if there is a Form 11-K filing.
 - Section 204—*Auditor Reports to Audit Committees*—Auditors are currently required to communicate specified matters related to the conduct of an audit to those who have responsibility for oversight of the financial reporting process, which is often the sponsor’s audit committee. SAS 61, *Communication With Audit Committees* (AU 380), as amended, and S-X Rule 2-07 communications need to be completed prior to the issuance of the audit report and filing of the Form 11-K.²
- Corporate Responsibility
 - Section 302—*Corporate Responsibilities for Financial Reports*—Requires a certification of the financial statements and other financial information. This requirement does not apply to annual reports on Form 11-K.
 - Many issuers included section 906 certifications with Forms 11-K filed during the past year in light of uncertainty over the scope of the statutory language and informal suggestions by the SEC that it would be appropriate to do so. Based upon discussions currently with the SEC, section 906 does not apply to Form 11-K filings. Plan sponsors should consult with their SEC counsel.
- Management Assessment of Internal Controls
 - Section 404—Requires each issuer that files periodic reports with the SEC to (1) establish and maintain a system of internal control over financial reporting, (2) include in its annual report a report by management on the system of internal controls, and (3) accompany the report with an attestation report on the system of internal controls. Based upon discussions with the SEC, section 404 is not applicable to Form 11-K. Plan sponsors should consider consulting with their SEC counsel.

¹ Independence would be impaired if an auditor prepares financial statements for a client that are filed with the SEC.

² Only the Securities and Exchange Commission (SEC) required communication needs to be completed prior to the issuance of the Form 11-K. Other SAS 61 communications may occur at various times in compliance with SAS 61, *Communication With Audit Committees* (AU 380), as amended.

- Additional Requirements

- PCAOB Auditing Standard No. 1—*References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (PC 130). Issued in December 2003 and cleared by the SEC, this standard requires registered public accounting firms to indicate in their auditor's reports that the engagement was performed pursuant to "the standards of the Public Company Accounting Oversight Board (United States)." For further guidance see the practice tip in FSP section 8000.04.
- Consider including a reference in the management representation letter that the PCAOB fees have been paid, if applicable.

Financial Accounting and Reporting Standards

.09 The AICPA Audit and Accounting Guide *Employee Benefit Plans* (the Guide) describes generally accepted accounting principles for accounting and financial reporting for defined contribution plans. Except for certain differences in determining plan benefits, defined contribution plans are similar to defined benefit pension plans and accordingly, the guidance is consistent with the accounting and reporting standards in FASB Statement of Financial Accounting Standards (SFAS) 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*. SFAS 35,³ as amended, establishes generally accepted accounting principles for defined benefit pension plans.

.10 The AICPA Statement of Position (SOP) 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, as amended by SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, specifies the accounting and reporting for defined contribution plan investment contracts.

.11 SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*, amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, is not subject to SFAS 133. Similarly, a contract that is accounted for under either paragraphs 4 or 5 of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to SFAS 133. Those exceptions apply only to the party that accounts for the contract under SFAS 35, SFAS 110, or SOP 94-4. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

.12 SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, simplifies disclosures for certain investments and supersedes AICPA Practice Bulletin No. 12, *Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans* (PB 12). More specifically, SOP 99-3—

1. Eliminates the *previous* requirement for a defined contribution plan to present plan investments by general type for participant-directed investments in the statement of net assets available for benefits.
2. Eliminates the requirement for a defined contribution plan to disclose participant-directed investment programs and *eliminates* the requirement to disclose the total number of units and the net asset value per unit during the period, and at the end of the period, by defined contribution pension plans that assign units to participants.

³ The FASB is currently working on an interpretation of SFAS 87, *Employers' Accounting for Pensions*. In May of 2004 the FASB decided to expand the scope of this project to amend SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*. Be alert to developments on this project at the FASB web site at www.fasb.org.

3. Requires a defined *contribution* plan to identify nonparticipant-directed investments that represent 5 percent or more of net assets available for benefits.
4. Eliminates the *requirement* for defined contribution plans, including both health and welfare benefit plans and pension plans, to disclose benefit-responsive investment contracts by investment fund option.

SOP 99-3 has been integrated into chapters 3, 4, and appendix E of the Guide.

.13 The nonauthoritative technical questions and answers (TPA) found in the publication AICPA *Technical Practice Aids*, are based on selected practice matters identified by the staff of the AICPA's technical hotline and various other bodies within the AICPA. In May 2004 the following TPA was issued relating to employee benefit plans.

TPA 6930.05—Sale of Real Estate Investments Held by Employee Benefit Plans and Discontinued Operations

Inquiry: Many employee benefit plans invest directly in real estate (for example, a building) that generates rental income and operating expenses for the plan. Generally, these plans are defined benefit plans but certain defined contribution plans may also hold these investments.

Paragraph 41 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, provides that a "component of an entity" comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

Paragraph 42 of FASB Statement No. 144 provides that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations in accordance with paragraph 43 of FASB Statement No. 144 if both of the following are met:

- The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and
- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Paragraph 43 of FASB Statement No. 144 states that in a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business enterprise (or statement of activities of a not-for-profit organization) for current and prior periods shall report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 of FASB Statement No. 144, in discontinued operations.

Because employee benefit plans are not specifically scoped out of FASB Statement No. 144, if an employee benefit plan invests in real estate that generates rental income and operating expenses for the plan and then sells that property, is the sale of the real estate investment considered a discontinued operation of the plan?

Reply: No. For many entities, after evaluating the conditions in paragraph 42 of FASB Statement No. 144, an investment in real estate (such as a building) that generates rental income and operating expenses would be considered to meet the definition of a "component of an entity" (as defined in FASB Statement No. 144) and, therefore, any gains or losses relating to the disposal of that "component" would be reported in discontinued operations. However, employee benefit plan financial statements show financial status or net assets available for benefits and changes in financial status or net assets available for benefits. Because they do not show a statement of operations or activities, there is no reason to distinguish between continuing and discontinued operations. Rather, real estate in an employee benefit plan should be treated as an investment carried at fair value and the related income/expenses and net appreciation/depreciation should be included in the statement of changes in financial status or statement of changes in net assets available for benefits. No distinction should be made between continuing and discontinued operations.

[Source: TPA 6930.05—*Sale of Real Estate Investments Held by Employee Benefit Plans and Discontinued Operations*]

Accounting and Reporting by Defined Contribution Retirement Plans

.14 Defined contribution plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year. (ERISA requires that this statement be presented in comparative form.)
- A statement of changes in net assets available for benefits for the year then ended.

.15 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in plan operations are presented at cost less accumulated depreciation or amortization.

.16 Defined contribution plans should report fully-benefit responsive investment contracts at contract value, which may or may not be equal to fair value, and other investment contracts at fair value. If, however, plan management is aware that an event has occurred that may affect the value of the contract (for example, a decline in the creditworthiness of the contract issuer) pursuant to SFAS 5, *Accounting for Contingencies*, disclosure of the event or reporting the investment at less than contract value may be appropriate.

.17 In addition to the reporting requirements of SFAS 35, as amended, and the AICPA Audit and Accounting Guide *Employee Benefit Plans*, defined contribution plans may have reporting requirements under ERISA. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Department of Labor (DOL), Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) have released the 2003 Form 5500 return/reports, schedules, and instructions to be used by employee benefit plans for plan year 2003 filings. The IRS has also released the Form 5500-EZ return and instructions to be used by certain one-participant retirement plans for plan year 2003 filings.

.18 The agencies have also released tips to avoid common filing errors and frequently asked questions (FAQs) for small pension plans that use the audit exception to assist filers in complying with their reporting obligations. The tips and FAQs will help plans avoid basic filing errors and explain the conditions that small pension plans must meet to be eligible for a waiver of the annual audit requirement. The FAQs also include model summary annual report language for the required participant notice under the small plan audit exception. This guidance may be found in Appendixes D and E of the Audit Risk Alert *Employee Benefit Plans Industry Developments—2004* (product no. 022414) and on the EBSA Web site at www.dol.gov/ebsa.

.19 The Form 5500 and Form 5500-EZ for plan year 2003 are essentially unchanged from 2002. Certain modifications have been made to reflect changes in the law or regulations, to improve forms processing, and to clarify the instructions. The Audit Risk Alert *Employee Benefit Plans Industry Developments—2004* (product no. 022414) summarizes the modifications to the 2003 Form 5500 Annual Report. Filers should note that, beginning this year, the Forms 5500 and 5500-EZ booklets with the official hand-print forms and instructions will not be automatically mailed to filers of record. A postcard will be mailed instead to remind filers of the filing obligation.

.20 The Form 5500 continues to require that certain supplemental schedules be attached to the annual form 5500 filing. Such schedules include:

- Schedule H, line 4i—Schedule of Assets (Held at End of Year)⁴
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)

⁴ **Practice Tip**—Historical cost information is not required on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

- Schedule H, line 4j—Schedule of Reportable Transactions⁵

The following schedules are required to be reported on Schedule G:

- Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible
- Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible
- Schedule G, Part III—Schedule of Nonexempt Transactions

Practice Tip

One change to note relates to the reporting of delinquent participant contributions. Schedule H and Schedule I—Information concerning delinquent participant contributions reported on line 4a is no longer required to be reported again on line 4d (or Schedule G). See the frequently asked questions about reporting delinquent participant contributions on the Form 5500 at the EBSA web site at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

Please refer to the Instructions to Form 5500 for schedule requirements. Information copies of the forms, schedules and instructions are available on EBSA's Web site at www.efast.dol.gov. Filers may also order forms and IRS publications twenty-four hours a day, seven days a week, by calling 800-TAX-FORM (800-829-3676).

Brokerage Window Accounts

.21 Plan sponsors of participant-directed defined contribution plans continue to allow participants to expand their control over investment decisions, through self-directed investments, sometimes referred to as self-directed brokerage accounts. These features allow participants to select any investment they choose without oversight from the plan administrator or investment committee. The only limitation is the availability of the desired investment through the plan's service provider, which generally is a securities broker-dealer or is a broker-dealer that has an alliance with the plan's service provider. The self-directed feature is often in addition to a more traditional array of risk diverse mutual funds and other investment option choices. Often plan sponsors may charge participants' fees to provide this investment feature and may also require a minimum balance to be invested.

.22 While self-directed accounts should be viewed as individual investments for auditing and reporting purposes, the instructions to Form 5500, Schedule H, "Financial Information," permit aggregate reporting of certain self-directed accounts (also known as participant-directed brokerage accounts) on the Form 5500 and related schedule of assets.

.23 For Form 5500 reporting, investments made through participant-directed brokerage accounts may be reported as a single line item on the Schedule H of the Annual Return/Report Form 5500 rather than by type of asset on the appropriate line item for the asset category (in Parts I and II of Schedule H), for example, common stocks and mutual funds, provided the assets are *not*:

- Loans
- Partnership or joint-venture interests
- Real property
- Employer securities

⁵ **Practice Tip**—Participant- or beneficiary-directed transactions are not required to be taken into account for purposes of preparing the schedule of reportable transactions. In a plan's initial year, the 5 percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

- Investments that could result in a loss in excess of the account balance of the participant or beneficiary who directed the transaction.

.24 This Form 5500 reporting creates an issue with investment reporting in plan financial statements because GAAP requires certain reporting and disclosures. The following table summarizes the differences between the Form 5500 alternative reporting for participant-directed brokerage account investments and GAAP that may raise issues for auditors when obtaining brokerage window investment information.

<i>Form 5500—Alternative Reporting</i>	<i>GAAP—Required Reporting and Disclosures</i>
<ul style="list-style-type: none"> • Certain investments and related income (see above) made through participant-directed brokerage accounts may be shown as single line items on Schedule H. • Certain investments listed on the Schedule of Assets (Held at End of Year) may be shown as a single line item. 	<ul style="list-style-type: none"> • Identification of investments representing 5 percent or more of plan net assets in the plan's footnotes. (See paragraph 3.28g of the Guide.) • Reporting of investment income, exclusive of changes in fair value, in the statement of changes in net assets or the footnotes. (See paragraph 3.28b of the Guide.) • Reporting of net appreciation/depreciation by investment type in the plan's footnotes. (See paragraph 3.25a of the Guide.)

.25 Plan auditors may experience difficulty in obtaining brokerage window investment information by individual investment categories (such as common stocks and mutual funds) and brokerage window investment income (such as net appreciation/depreciation by type) from plan service providers. In plans subject to the limited scope audit provisions of ERISA, the investment certification may provide investment amounts only in total, not for the individual investments. However, brokerage window investments are not considered a fund or a pooled separate account subject to other reporting requirements. Individual investment information is needed by plan administrators and auditors for the valuation of investment assets in the plan and for audit testing and disclosure purposes in accordance with GAAP and GAAS. Therefore, it is important for plan administrators, recordkeepers, and service providers to maintain these records for audit and financial reporting purposes.

Practice Tip

Auditors should note that when a SAS 70 report is available, often it does not cover the self-directed investments.

.26 This alternative method of reporting of participant-directed brokerage window investments does not relieve fiduciaries from their obligation to prudently select and monitor designated plan investment options and brokers.

Note: This publication was extracted from sections 8000 through 8400 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 8100

Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of defined contribution pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited defined contribution pension plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports**—Illustrating full sets of defined contribution pension plan financial statements.

.02 The checklists and illustrative financial statements have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of defined contribution retirement plans. In the context of this checklist, reference to defined contribution plans refers to defined contribution retirement plans only and does not include health and welfare benefit plans (see the separate publication, *Checklist and Illustrative Financial Statement for Health and Welfare Benefit Plans*, that includes both defined benefit and defined contribution health and welfare benefit plans).

The financial statements and notes checklists and auditor's report checklist have been updated to include guidance relevant to employee benefit plans contained in pronouncements issued through:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*, and Revised FASB Statements issued from March 1, 2003 through March 1, 2004, including:
 FASB Statement No. 132 (revised 2003), *Employers' Disclosures About Pensions and Other Postretirement Benefits*
- FASB Interpretation (FASBI) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*
- FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Emerging Issues Task Force (EITF) consensuses adopted through the March 2004 EITF meeting
- AICPA Statement on Auditing Standards (SAS) No. 101, *Auditing Fair Value Measurements and Disclosures*
- AICPA Statement of Position (SOP) 03-5, *Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide Audits of Investment Companies*
- AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*
- AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2004)

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: “yes” if the disclosure has been appropriately made, “no” if the disclosure has not been made, or “n/a” if the disclosure is not applicable to the engagement. The auditor should consider the effect of a “no” answer on his/her report. A “no” answer that is material to the financial statements may warrant a departure from an unqualified opinion (see paragraphs 20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.20–63]). If a “no” answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write “not material” in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for defined contribution retirement plans are not included in this document. The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

.05 If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.

FSP Section 8200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> —with conforming changes as of March 1, 2004
AC =	Reference to section number in <i>FASB Accounting Standards—Current Text</i>
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
EITF =	Emerging Issues Task Force consensus
ERISA =	Employee Retirement Income Security Act of 1974
FASBI =	FASB Interpretation
PB =	AcSEC Practice Bulletin
PBGC =	Pension Benefit Guaranty Corporation
SAS =	AICPA Statement on Auditing Standards
SFAS =	FASB Statement of Financial Accounting Standards
SOP =	AICPA Statement of Position

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked “N/A” or left blank. For example, if the plan had a change in accounting principle, place a check mark by the section “Changes in Accounting” and complete that section of the checklist. On the other hand, if the plan did not have a change in accounting principle, do not place a check mark by “Changes in Accounting” and skip that section when completing the checklist.

*Place ✓ by
Applicable Sections*

- General
 - A. Titles and References
 - B. Comparative Financial Statements
- Statement of Net Assets Available for Benefits
 - A. General
 - B. Classification of Investments

	<i>Place ✓ by Applicable Sections</i>		
C. Investment and Insurance Contracts			
D. Operating Assets			
E. Contributions Receivable and Uncollectible Amounts			
F. Cash			
G. Liabilities			
• Statement of Changes in Net Assets Available for Benefits			
A. General			
B. Contributions			
C. Investment Earnings			
D. Transfer of Assets To or From Other Plans			
• Summary of Significant Accounting Policies			
A. Accounting Policies			
B. Certain Significant Estimates			
• Other Financial Statement Disclosures			
A. Changes in Accounting			
B. Commitments and Contingencies			
C. Current Vulnerabilities Due to Certain Concentrations			
D. Description of Defined Contribution Plan			
E. Description of Plan Amendments			
F. Financial Instruments			
G. Income Tax Status			
H. Plan Terminations			
I. Related-Party Transactions			
J. Subsequent Events			
K. Transfers and Servicing of Financial Assets and Securitizations			
L. Other Matters			
• ERISA Reporting Requirements			
A. Form 5500 Series Report			
B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA			
C. Required Financial Statements and Supporting Schedules			
• Auditors' Report Checklist			
• Illustrative Financial Statements and Auditor's Reports			
	<u>Yes</u>	<u>No</u>	<u>N/A</u>

General

A. Titles and References¹

- For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:

¹ Some defined contribution plans are required to register and report to the Securities Exchange Commission (SEC). The SEC has amended its rules on Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than in accordance with Regulation S-X. Please refer to the instructions to Form 11-K for additional information.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A "Statement of Net Assets Available for Benefits" as of the end of plan year? (ERISA requires that this statement be presented in comparative form.)	_____	_____	_____
b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [AAG, par. 3.10]	_____	_____	_____
2. Is each financial statement suitably titled? [Generally Accepted]	_____	_____	_____
3. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	_____	_____	_____
4. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, the results of transactions and events that affect the information about those resources, and other factors necessary for users and participants to understand the information provided? [AAG, par. 3.09]	_____	_____	_____
B. Comparative Financial Statements			
1. Are comparative statements presented, if appropriate? ² [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding years repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____

Statement of Net Assets Available for Benefits

A. General

- | | | | |
|---|-------|-------|-------|
| 1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits?
[SFAS 35, par. 9 (AC Pe5.108)] | _____ | _____ | _____ |
|---|-------|-------|-------|

B. Classification of Investments

- | | | | |
|---|-------|-------|-------|
| 1. Are participant-directed plan investments shown in the aggregate as a one-line item?
[AAG, par. 3.20] | _____ | _____ | _____ |
| 2. Are non-participant directed investments detailed by general type in the "Statement of Net Assets Available for Benefits" or in the notes, as follows: | | | |
| a. Shares of registered investment companies (mutual funds)? | _____ | _____ | _____ |

² ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. [AAG, par. 3.10, fn. 3]

* Participant-directed plan investments, including self-directed investments held in brokerage accounts, that individually exceed 5 percent of net assets available for benefits must be separately disclosed pursuant to paragraph 3.28g of the Guide.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Government securities?	_____	_____	_____
c. Common/collective trusts?	_____	_____	_____
d. Pooled separate accounts?	_____	_____	_____
e. Short-term securities?	_____	_____	_____
f. Corporate bonds?	_____	_____	_____
g. Common stocks?	_____	_____	_____
h. Mortgages?	_____	_____	_____
i. Loans to participants?	_____	_____	_____
j. Real estate? [AAG, par. 3.20]	_____	_____	_____
3. Does the presentation of the plan's investments indicate whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [AAG, par. 3.20]	_____	_____	_____
4. For investments that (including self-directed and participant directed investments) represent 5 percent or more of the plan's net assets available for benefits:			
a. Are they identified in the financial statements or notes thereto?	_____	_____	_____
b. If any of those investments are nonparticipant-directed, are they identified as such? [AAG, par. 3.28g]	_____	_____	_____

Practice Tip

Listing all investments in Schedule H, line 4i—Schedule of Assets (Held at End of Year) required by ERISA does not eliminate the requirement to include this disclosure in the financial statements.
[AAG, par. 3.28g]

5. Do disclosures include the investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [AAG, par. 3.30]	_____	_____	_____
6. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits"? [AAG, par. 3.30]	_____	_____	_____
7. Do disclosures include investments pledged to secure debt of the plan as well as a description of the provisions regarding the release of such investments from the pledge and the amounts of investments released from the pledge in the last period? [AAG, par. 3.28i]	_____	_____	_____
8. If the plan provides for participant-directed ³ and nonparticipant-directed investment programs, is disclosure made, either in the financial statements or accompanying notes, about the net assets and significant			

³ A plan provides for participant-directed investment programs if it allows participants to choose among various investment alternatives. The available alternatives are usually pooled fund vehicles, such as registered investment companies or commingled funds of banks, that provide varying kinds of investments—for example, equity funds and fixed income funds. The participant may select among the various available alternatives and periodically change that selection.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
components of the changes in net assets relating to the nonparticipant-directed program with such reasonable detail as is necessary to identify the types of investments and changes therein? [AAG, par. 3.28k]	_____	_____	_____

Practice Tip

If a plan offers a program that is both participant- and nonparticipant-directed, and if the participant-directed and nonparticipant-directed amounts cannot be separately determined, the plan will be deemed to be nonparticipant-directed for purposes of the disclosure in Question 8. For example, an employer-sponsored plan offers six investment fund options, one of which is a stock fund that includes only the employer's stock. Employees at their discretion may invest their contributions in any or all of the six options. However, the employer's contribution to the plan (for example, the company match) is automatically invested in the employer's stock fund. The stock fund is considered to be nonparticipant-directed for purposes of this disclosure if the employee and the employer amounts cannot be separately determined. [SOP 99-3, fn. 3]

C. Investment and Insurance Contracts

Practice Tip

SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*, amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, is not subject to SFAS 133. Similarly, a contract that is accounted for under either paragraphs 4 or 5 of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to SFAS 133. Those exceptions apply only to the party that accounts for the contract under SFAS 35, SFAS 110, or SOP 94-4. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

- | | | | |
|---|-------|-------|-------|
| 1. Are fully benefit-responsive investment contracts reported at contract value, which may or may not be equal to fair value, and all other investment contracts at fair value?
[SOP 94-4, par. 4; AAG, par. 3.17] | _____ | _____ | _____ |
| 2. If plan management is aware that an event has occurred that may affect the value of the fully benefit-responsive contract, pursuant to SFAS 5, <i>Accounting for Contingencies</i> , is the event disclosed or is the investment reported at less than contract value?
[AAG, par. 3.17] | _____ | _____ | _____ |
-

Practice Tip

A fully benefit-responsive investment contract provides a liquidity guarantee by a financially responsible third party of principal and previously accrued interest for transactions initiated by plan participants exercising their rights under the terms of the ongoing plan. [SOP 94-4, par. 10]

- | | | | |
|--|-------|-------|-------|
| 3. Are insurance contracts, as defined by SFAS 60, <i>Accounting and Reporting by Insurance Enterprises</i> , presented in the same manner required by ERISA annual reporting requirements of DOL Form 5500, that is either at fair value or at amounts determined by the insurance enterprise (contract value)?
[SOP 94-4, par. 17b; AAG, par. 3.13] | _____ | _____ | _____ |
| 4. Are the following disclosed, in the aggregate, for fully benefit-responsive investment contracts: | | | |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. The average yield for each period for which a statement of net assets available for benefits is presented?	_____	_____	_____
b. The crediting interest rate as of the date of each statement of net assets available for benefits presented?	_____	_____	_____
c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the credit worthiness of the contract issuer or third-party guarantor)?	_____	_____	_____
d. The fair value of fully benefit-responsive investment contracts reported at contract value, in accordance with SFAS 107, <i>Disclosures About Fair Value of Financial Instruments</i> , as amended? [SOP 94-4, pars. 15 and 17g; AAG, par. 3.28o]	_____	_____	_____
<p>Note: Disclosures about the fair value of financial instruments prescribed in SFAS 107 is optional when the plan is a nonpublic entity, its total assets are less than \$100 million at the financial statement date, and the plan has no instruments (in whole or in part) that are accounted for as derivative instruments under SFAS 133 during the reporting period. [SFAS 126, par. 2; SFAS 133, par. 537]</p>			
5. Do disclosures include a general description of the basis and frequency of determining crediting interest rate resets and any minimum crediting interest rate under the terms of fully benefit-responsive investment contracts and any limitations on related liquidity guarantees (for example, premature termination of the contracts by the plan, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives)? [SOP 94-4, pars. 15 and 17p; AAG, par. 3.28p]	_____	_____	_____
6. For ERISA-covered plans, is an explanation provided for differences between amounts reported in the financial statements and DOL Form 5500, if a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500, but is reported in the financial statements at contract value, and the contract value does not approximate fair value? [SOP 94-4, pars. 16 and 17q; AAG, par. 3.28q]	_____	_____	_____
7. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed? [AAG, par. 7.49c]	_____	_____	_____
D. Operating Assets			
1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5a-d (AC D40.105a-d)]	_____	_____	_____
2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with			

SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, paragraphs 25–27, 33, and 42–48.⁴
 [SFAS 144, pars. 25–27, 33, and 42–48 (AC I08.160 and 161, AC D60.104 and 110, AC I14.102–106 and AC D60.118–121)]

Yes No N/A

E. Contributions Receivable and Uncollectible Amounts

1. Are the following contributions receivable separately identified:
 - a. Receivables from employer(s)?
 - b. Receivables from participants?
 - c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements?
[AAG, par. 3.21]
2. Do contributions receivable include an allowance for uncollectible amounts?
[AAG, par. 3.21]

F. Cash

1. Is separate disclosure made of restricted cash?
[ARB 43, Ch. 3A, par. 6 (AC B05.107)]
2. Are restrictions on cash properly disclosed?
[SFAS 5, par. 18 (AC C59.120)]

G. Liabilities

1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses) deducted in arriving at net assets available for plan benefits?
[AAG, par. 3.24]

Practice Tip

Amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid should not be reflected as liabilities. [AAG, pars. 3.24 and 3.28]

2. Consider stating separately:
 - a. Due to broker for securities purchased?
 - b. Accounts payable?
 - c. Accrued expenses?
[AAG, par. 3.24, and App. E, Exs. E-1 and E-4]
3. Do disclosures include guarantees by others of debt of the plan?
[AAG, par. 3.28]

⁴ SFAS 144 establishes accounting and reporting for the impairment or disposal of long-lived assets to be held and used and assets to be disposed of. The required disclosures of SFAS 144 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined contribution plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 144, pars. 25–27, 33, and 42–48 for the disclosure requirements. See FSP section 8000.13 for a discussion of the applicability of SFAS 144 as it relates to the sale of real estate investments held by employee benefit plans and discontinued operations. (Also found in AICPA *Technical Practice Aids*, section 6930.05.)

Yes No N/A

Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation (depreciation) in the fair value of each significant type of investment, including participant directed and self-directed investments held in brokerage accounts, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined?⁵
[AAG, par. 3.25a]

Practice Tip

This disclosure is still required for participant-directed brokerage window accounts even though the DOL has issued alternative reporting for such investments for Form 5500 purposes. See FSP section 8000.21–.24 for a discussion of brokerage window accounts.

2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:
 - a. Investment income (exclusive of changes in fair value)?
 - b. Contributions from employer(s), segregated between cash and noncash contributions?
 - c. Contributions from participants, including those transmitted by the sponsor?
 - d. Contributions from other sources (e.g., state subsidies or federal grants)?
 - e. Benefits paid to participants?
 - f. Payments to insurance companies to purchase contracts that are excluded from plan assets?
 - g. Administrative expenses?
 - h. Other changes? (For example, transfers of assets to or from other plans, or proceeds from demutualizations if significant.)
[AAG, pars. 3.25 and 3.26]

B. Contributions

1. Is the nature of *noncash* contributions described, either parenthetically or in a footnote?
[AAG, par. 3.25c]

C. Investment Earnings

1. Does the net appreciation (depreciation) in the fair value of investments (see Question A.1. above) include realized gains and losses on investments that were both bought and sold during the year?
[AAG, par. 3.25, fn. 5]

⁵ This information may be presented in the accompanying footnotes as illustrated in Exhibit E-3, Note C, in Appendix E of the Guide.

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (e.g., interest, dividends, etc.) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented?
[AAG, par. 3.30] | _____ | _____ | _____ |

D. Transfer of Assets To or From Other Plans

- | | | | |
|---|-------|-------|-------|
| 1. If there are other changes, such as significant transfer of assets to or from other plans, are they disclosed?
[AAG, par. 3.26] | _____ | _____ | _____ |
|---|-------|-------|-------|

Summary of Significant Accounting Policies

A. Accounting Policies

- | | | | |
|---|-------|-------|-------|
| 1. Is a description of all significant accounting policies presented as either a separate "summary of significant accounting policies" preceding the notes to the financial statements or as an initial note?
[APB 22, par. 15 (AC A10.108)] | _____ | _____ | _____ |
| 2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations, including instances in which there: | | | |
| a. Is a selection from existing acceptable alternatives? | _____ | _____ | _____ |
| b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry? | _____ | _____ | _____ |
| c. Are unusual or innovative applications of GAAP?
[APB 22, par. 12 (AC A10.105)] | _____ | _____ | _____ |
| 3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?
[APB 22, par. 14 (AC A10.107)] | _____ | _____ | _____ |
| 4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included?
[SOP 94-6, par. 11] | _____ | _____ | _____ |
| 5. Does the disclosure of the significant accounting policies include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts?
[AAG, par. 3.27] | _____ | _____ | _____ |
| 6. Does the disclosure of the significant accounting policies include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets?
[AAG, par. 3.28e] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Certain Significant Estimates			
1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	_____	_____	_____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14; AAG, par. 3.35]	_____	_____	_____

Other Financial Statement Disclosures

A. Changes in Accounting

1. For changes in accounting principles, does disclosure made in the period of change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change, including a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on net additions (deductions) to the plan's net assets? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed? [APB 20, pars. 19-22 and 25 (AC A06.115-.118)]	_____	_____	_____
3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:			
a. Are all financial statements of prior periods presented restated? [APB 20, par. 27 (AC A06.123)]	_____	_____	_____
b. Is the effect on net assets available for benefits for all prior periods presented shown? [APB 20, par. 28 (AC A06.124)]	_____	_____	_____
4. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction?	_____	_____	_____
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on the changes in the net assets available for benefits? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. For changes in accounting estimates:			
a. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]	_____	_____	_____
6. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and is the nature of the change and the reason for it disclosed? [APB 20, pars. 34 and 35 (AC A35.112 and .113)]	_____	_____	_____

B. Commitments and Contingencies

1. Is disclosure made of the nature of estimated loss contingencies accrued when (a) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and (b) the amount of loss can be reasonably estimated? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in Question 1 above disclosed? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
3. For loss contingencies not accrued because one or both of the conditions in Step 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Are the nature and amount of guarantees (e.g., guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114); EITF 85-20]	_____	_____	_____
6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____

Yes No N/A

C. Current Vulnerabilities Due to Certain Concentrations

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the enterprise vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22; AAG, par. 3.36]

D. Description of Defined Contribution Plan

1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, vesting and allocation provisions and the disposition of forfeitures? [AAG, par. 3.28a; SOP 94-6, par. 10]

Practice Tip

If material providing this information is otherwise published and made available to participants (e.g., employee handbook), this disclosure may be omitted provided that a reference to the other source is made. [AAG, par. 3.28a]

2. Do disclosures include the amount of unallocated assets, as well as the basis used to allocate asset values to participants' accounts when that basis differs from the one used to record assets in the financial statements? [AAG, par. 3.28c]

E. Description of Plan Amendments

1. Do disclosures include a description of significant plan amendments adopted during the period, and the effects of such amendments on net assets if significant either individually or in the aggregate? [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 3.28b]

F. Financial Instruments

Practice Tip

SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*, amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended, is not subject to SFAS 133. Similarly, a contract that is accounted for under either paragraphs 4 or 5 of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to SFAS 133. Those exceptions apply only to the party that accounts for the contract under SFAS 35, SFAS 110, or SOP 94-4. SFAS Statement No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<i>Derivative Instruments and Hedging Activities</i>			
1. If a plan holds or issues derivative instruments (or non-derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133, as amended) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?	_____	_____	_____
2. Does the description distinguish between derivative instruments (and non-derivative instruments) designated as fair value hedging instruments, derivative instruments (and non-derivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?	_____	_____	_____
3. Does the description also indicate the plan's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?	_____	_____	_____
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?	_____	_____	_____
5. Qualitative disclosures about a plan's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan's overall risk management profile. If appropriate, a plan is encouraged, but not required , to provide such additional qualitative disclosures. Have such disclosures been made? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
6. For every reporting period for which a complete set of financial statements is presented, has the plan disclosed the following:			

Fair Value Hedges

- a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, *Foreign Currency Translation*, that have not been designated and have qualified as fair value hedging instruments and for the related hedged items:
- (1) The net gain or loss recognized in the investment income during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of changes in net assets available for benefits?
 - (2) The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge?
- [SFAS 133, par. 45a (AC D50.142)]

_____	_____	_____
_____	_____	_____

Hedges of the Net Investment in a Foreign Operation

- b. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, that have been designated and have qualified as hedging

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133, par. 45c (AC D50.142)]	_____	_____	_____
7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or non-financial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? (Encouraged, but not required.) [SFAS 133, par. 45 (AC D50.142)]	_____	_____	_____

Disclosures About Fair Value of Financial Instruments

8. Have the disclosure requirements of paragraphs 10–14 of SFAS 107, as amended, been followed for financial instruments of the plan? [SFAS 107, pars. 10–14 (AC F25.115C–115F and 115J); AAG, pars. 3.31–3.32]	_____	_____	_____
--	-------	-------	-------

Disclosure About Concentrations of Credit Risk of All Financial Instruments

9. Except as indicated in paragraph 15B ⁶ of SFAS 107, has the plan disclosed all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (<i>Group concentrations</i> of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107, par. 15A; SFAS 133, par. 531d (AC F25)]	_____	_____	_____
10. Has the plan made the following disclosures about each significant concentration:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about			

⁶ SFAS 107, paragraph 15B provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
2. The financial instruments described in paragraphs 8(a), 8(c), and 8(f) of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Post-Employment Benefits*, SFAS 123, *Accounting for Stock Based Compensation*, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? [SFAS 107, par. 15A, as amended; SFAS 133, par. 531d (AC F25; AAG par. 3.33)]	_____	_____	_____
11. Has the plan disclosed quantitative information ⁷ about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? (<i>Encouraged but not required.</i>) [SFAS 107, par. 15C, as amended; SFAS 133, par. 531d (AC F25.116C)]	_____	_____	_____

G. Income Tax Status

1. If a favorable determination letter is not obtained or maintained, is the federal income tax status of the plan disclosed? [AAG, par. 3.28f]	_____	_____	_____
--	-------	-------	-------

Practice Tip

Note that reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether a tax ruling or determination letter has been obtained," which is more than is required by SFAS 35, as amended. [AAG, par. 3.28f]

H. Plan Terminations

1. If a decision is made to terminate the plan, or a wasting trust or frozen plan exists, are all relevant circumstances of this fact disclosed? [AAG, par. 3.43]	_____	_____	_____
2. If a decision is made to terminate the plan before the end of the plan year, are the plan's year-end financial statements prepared on the liquidation basis? [AAG, par. 3.44]	_____	_____	_____
3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [SAS 1, sec. 560.05 (AU 560.05); AAG, par. 3.44]	_____	_____	_____

I. Related-Party Transactions

1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved?	_____	_____	_____

⁷ Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate re-pricing or maturity dates, (d) the duration of the financial instruments, or (e) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For each period for which a statement of changes in net assets is presented:			
(1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?	_____	_____	_____
(2) Other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
(3) The dollar amount of transactions?	_____	_____	_____
(4) The effects of any changes in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
c. Amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–.104)]	_____	_____	_____
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, pars. 2–4 (AC R36.102–.104)]	_____	_____	_____
3. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
4. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]	_____	_____	_____
5. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, par. 3.28 <i>h</i> and App. A, par. A.51 <i>c</i>]	_____	_____	_____

Practice Tip

ERISA defines a party-in-interest to include fiduciaries or employees of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person described above. [AAG 11.01, App. A, par. A.95, fn. 27; ERISA sec. 3(14)]

J. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]	_____	_____	_____
---	-------	-------	-------

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed? ⁸
[SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05-.07 and .09 (AU 560.05-.07 and .09); AAG, pars. 3.28m and 3.44] | _____ | _____ | _____ |

K. Transfers and Servicing of Financial Assets and Securitizations

- | | | | |
|---|-------|-------|-------|
| 1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions?
[SFAS 140, par. 17a (AC F39.110a)] | _____ | _____ | _____ |
| 2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements?
[SFAS 140, par. 17d (AC F39.110b)] | _____ | _____ | _____ |
| 3. For all servicing assets and servicing liabilities are the following disclosures made: | | | |
| a. The amounts of servicing assets or liabilities recognized and amortized during the period? | _____ | _____ | _____ |
| b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value? | _____ | _____ | _____ |
| c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140? | _____ | _____ | _____ |
| d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented?
[SFAS 140, par. 17e (AC F35.102A)] | _____ | _____ | _____ |
| 4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type: | | | |
| a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value? | _____ | _____ | _____ |
| b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations? | _____ | _____ | _____ |
| c. The key assumptions* used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, | | | |

⁸ Also, consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	_____	_____	_____
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?	_____	_____	_____
5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:			
a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	_____	_____	_____
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	_____	_____	_____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under <i>b</i> above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?	_____	_____	_____
d. For the securitized assets and any other financial assets that it manages together with them:			
(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?	_____	_____	_____
(2) Delinquencies at the end of the period?	_____	_____	_____
(3) Credit losses, net of recoveries, during the period?	_____	_____	_____
Disclosure of average balances during the period is encouraged, but not required. [SFAS 140, par.17f–g (AC F39.110c–d)]			

Collateral

6. a. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented? [SFAS 140, par. 17a(2) (AC F39.110a)]	_____	_____	_____
--	-------	-------	-------

* Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| b. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed?
[SFAS 140, par. 17a(3) (AC F39.110a)] | _____ | _____ | _____ |
| c. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed?
[SFAS 140, par. 17a(3) (AC F39.110a)] | _____ | _____ | _____ |

L. Other Matters

- | | | | |
|--|-------|-------|-------|
| 1. Do disclosures include the basis for determining contributions by employers?
[AAG, par. 3.28d] | _____ | _____ | _____ |
| a. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed?
[AAG, par. 3.28d, fn. 7] | _____ | _____ | _____ |
| b. For a contributory plan, does the disclosure state the method of determining the participants' contributions?
[AAG, par. 3.28d] | _____ | _____ | _____ |
| c. For plans subject to the minimum funding requirements of ERISA, such as money purchase pension plans, is disclosure made of whether those requirements have been met?
[AAG, par. 3.28d] | _____ | _____ | _____ |
| d. If a minimum funding waiver has been granted by the IRS, or if a request for waiver is pending before the IRS, is that fact disclosed?
[AAG, par. 3.28d] | _____ | _____ | _____ |
| 2. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (a) the sponsor, (b) the employer(s), or (c) the employee organizations(s)? [See also section I, "Related-Party Transactions," regarding parties-in-interest.]
[AAG, par. 3.28h] | _____ | _____ | _____ |
| 3. Do disclosures include the amount and disposition of forfeited non-vested accounts, specifically, identification of those amounts that will be used to reduce future employer contributions?
[AAG, par. 3.28n] | _____ | _____ | _____ |
| 4. Do disclosures include amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid?
[AAG, par. 3.28l] | _____ | _____ | _____ |

Practice Tip

These amounts should not be reported as a liability on the statement of net assets available for benefits, in financial statements prepared in conformity with GAAP. A footnote to reconcile the audited financial statements to the Form 5500 may be necessary to comply with ERISA. [AAG, par. 3.28l]

ERISA Reporting Requirements**A. Form 5500 Series Report**

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
prepared in accordance with either GAAP, or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, par. 13.19 and App. A, par. A.23]	_____	_____	_____

Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category ("large plan" or "small plan") as was filed for the previous year. The Form 5500 is filed with the EBSA in Lawrence, Kansas, in accordance with the instructions to the form. (See the FSP section 8000.17–20 for a discussion about the Form 5500.)

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Section 2520.103-1(a)(2), do the disclosures in the financial statements include:
 - a. A description of accounting principles and variances from GAAP? _____
 - b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits? _____
 - c. The funding policy and changes in the funding policy from the prior year? _____
 - d. A description of material lease commitments, and other commitments and contingent liabilities? _____
 - e. A description of any agreements and transactions with persons known to be parties-in-interest? _____
 - f. A general description of priorities in the event of plan termination? _____
 - g. Whether a tax ruling or determination letter has been obtained? _____
 - h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? _____
[AAG, App. A, pars. A.50a and A.51c]

C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method (statutory or alternative), are the following financial statements included and covered by the auditor's report:
 - a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year? _____
 - b. Separate or combined statements of plan income and expenses and of changes in net assets? _____
[AAG, App. A, par. A.51a]
2. The Form 5500 requires that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting is standardized in that some of these schedules are required to be reported on Schedule G, "Financial Transactions Schedules" of Form 5500. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:

Yes No N/A

Practice Tip

The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

- a. The Schedule H, line 4i—Schedule of Assets (Held at End of Year). Does the schedule use the format shown here and is it clearly labeled "Schedule H, line 4i—Schedule of Assets (Held at End of Year)." (If filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year.)
[AAG, App. A, Exhibit A-1]

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
-----	--	---	----------	-------------------

Practice Tip

Participant loans may be aggregated and presented with a general description of terms and interest rates. In column (d), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

- b. The Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year) (see 2520.103-11). Is the schedule clearly labeled "Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)" and does it use the following format?
[AAG, App. A, Exhibit A-1]

(a) Identity of issue, borrower, lessor or similar party	(b) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(c) Cost of acquisitions	(d) Proceeds of dispositions
--	---	--------------------------	------------------------------

Practice Tip

In column (c), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

- c. The Schedule H, line 4j—Schedule of Reportable Transactions. Is this schedule clearly labeled "Schedule H, line 4j—Schedule of Reportable Transactions" and does it use the following format?
[AAG, App. A, Exhibit A-1]

(a) Identity of party involved	(b) Description of asset (include interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(e) Lease rental	(f) Expense incurred with transaction	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)
--------------------------------	---	--------------------	-------------------	------------------	---------------------------------------	-------------------	--	------------------------

Yes No N/A

Practice Tip

Participant or beneficiary directed transactions under an individual account plan should not be taken into account for purposes of preparing this schedule. The current value of all assets of the plan, including those resulting from participant direction, should be included in determining the 5 percent figure for all other transactions.

d. Are the following schedules reported on the Schedule G, Financial Transactions Schedules, of the Form 5500:

- | | | | |
|---|-------|-------|-------|
| (1) Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible? | _____ | _____ | _____ |
| (2) Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible? | _____ | _____ | _____ |
| (3) Schedule G, Part III—Nonexempt Transactions?
[AAG, App. A, Exhibit A-1] | _____ | _____ | _____ |

Practice Tips

Beginning with the 2003 Form 5500, information on delinquent participant contributions reported on Line 4a is no longer also reported on Line 4d or Schedule G. This will simplify reporting of information on delinquent participant contributions. It does not, however, change the fact that all delinquent participant contributions required to be reported on Line 4a, except those for which the DOL VFCP requirements have been met and the conditions of PTE 2002-51 have been satisfied, are nonexempt prohibited transactions.

The requirement may be satisfied by including an attachment in the Form 5500 report labeled “Line 4a—Schedule of Delinquent Participant Contributions” that sets forth the information on Line 4a regarding total aggregate delinquency for the plan year and the subtotal that constitutes nonexempt prohibited transactions. As noted above, in calculating this subtotal, plan administrators and IQPAs should understand that all delinquent participant contributions required to be reported on Line 4a are nonexempt prohibited transactions unless the delinquency has been corrected under the VFCP and the conditions of PTE 2002-51 have been satisfied. Further, the IQPA’s report must include a statement on whether Line 4a and the scheduled information are presented fairly in all material respects in relation to the basic financial statements taken as a whole.

For further guidance see the frequently asked questions about reporting delinquent participant contributions on the Form 5500 at the EBSA web site at http://www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year, whereas plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year. [AAG, App. A, par. A.51, fn. 20]

FSP Section 8300

Auditors' Report Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> —with conforming changes as of March 1, 2004
AR =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 2)
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
SAS =	AICPA Statement on Auditing Standards
PCAOB =	Public Company Accounting Oversight Board

Practice Tip—11-K Filers

In December 2003, PCAOB Auditing Standard No. 1, *Reference in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (PC 130), was issued and cleared by the Securities and Exchange Commission. This standard requires that auditors' reports on engagements conducted in accordance with the Board's standards include a reference that the engagement was performed in accordance with the standards of the PCAOB. This would replace the previously required references to generally accepted auditing standards.

As noted earlier in the practice tip in FSP section 8000.05, plans that are required to file Form 11-Ks are deemed to be "issuers" under the Sarbanes-Oxley Act and must submit to the SEC an audit in accordance with the auditing and related professional practice standards promulgated by the PCAOB. These plans may also be subject to ERISA and must submit to the U.S. Department of Labor (DOL) an audit in accordance with generally accepted auditing standards (GAAS) promulgated by the AICPA's Auditing Standards Board. It is our understanding that the SEC will not accept an audit report that references GAAS, and the DOL will not accept an audit report that does *not* reference GAAS.

Based on AICPA staff discussions with the SEC and PCAOB staff to seek clarification of the performance and reporting requirements for audits of 11-K filers, *firms will need to conduct their audits of these 11-K plans in accordance with two sets of standards and prepare two separate audit reports; an audit report referencing PCAOB standards for Form 11-K filings with the SEC and a separate audit report referencing GAAS for DOL filings.* The PCAOB and SEC staff believe that an opinion issued in accordance with PCAOB Auditing Standard No. 1 does not allow a reference to GAAS, hence a "dual" standard report is not appropriate and will not be accepted by the SEC.

Any questions regarding performance and reporting requirements of audits of financial statements of Form 11-K filers should be directed to the SEC Division of Corporation Finance, Office of the Chief Accountant at (202) 942-2960.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
.03 Checklist Questionnaire:			
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
5. Does the auditor's report include:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]	_____	_____	_____
d. (Audits of Non-Public Companies and for 11-K filings with the DOL only) A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted audited standards)? [SAS 58, par. 8d, as amended by SAS 93 (AU 508.08d)]	_____	_____	_____
e. (Audits of Public Companies Only [11-K Filings With the SEC Only]) A statement that the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States)? [PCAOB Auditing Standard No. 1, App., par. 3]	_____	_____	_____
f. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
i. An opinion as to whether the financial statements present fairly, in all material respects, the net assets of the plan as of the balance sheet date and the changes in net assets for the period then ended in conformity with accounting principles generally accepted in the United States of America? [SAS 58, par. 8h, as amended (AU 508.08h)]	_____	_____	_____
<i>or</i>			
j. If the plan prepares its financial statements on a comprehensive basis of accounting other than GAAP:			
(1) Does the report include a paragraph that—			
(a) States the basis of presentation and refers to the note to the financial statements that describes the basis?	_____	_____	_____
(b) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?	_____	_____	_____
(c) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?	_____	_____	_____
(2) If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:			
(a) Disclose (in an explanatory paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?	_____	_____	_____
(b) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)? [SAS 62, par. 5d and e (AU 623.05d and e)]	_____	_____	_____
k. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____
l. The date (or dual dates) ¹ of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

Practice Tip

DOL regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)]	_____	_____	_____
7. If the auditor is not independent, is a compilation report indicating the lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____

¹ If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [SAS 1, sec. 530.05 (AU 530.05)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 33 and 34 (AU 508.33 and .34)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]	_____	_____	_____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.08–13.18]	_____	_____	_____

Practice Tip

The Guide includes additional auditor reports with respect to “financial statements of a trust” and “inadequate procedures to value investments.”
[AAG, pars. 13.30 and 13.35]

Explanatory Paragraphs

9. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____
11. If there is substantial doubt about the plan’s ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase “substantial doubt about its (the plan’s) ability to continue as a going concern” or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended, par. 12 (AU 341.12)]	_____	_____	_____

Practice Tips

During the audit of an employee benefit plan, the auditor may become aware that the plan sponsor may not be able to continue as a going concern. Although the employee benefit plan’s going concern assessment is not automatically affected by the plan sponsor’s financial adversities, the auditor should address whether those difficulties pose any imminently potential impact on the plan.
[AAG, par. 5.62]

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern. See SAS 77 for an example. [SAS 59, as amended, par. 13 (AU 341.13)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____
c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? (<i>Note:</i> A change in the reporting entity resulting from a transaction or event does not require that an explanatory paragraph about consistency be included in the auditor's report.) [SAS 88, par. 8 (AU 420.08)]	_____	_____	_____
13. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____
14. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
15. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8, as amended (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
18. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG, par. 13.38]	_____	_____	_____
b. Does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis if the financial statements are presented along with financial statements of a period prior to adoption of a liquidation basis? [AAG, par. 13.38; Interpretation 8 of SAS 58 (AU 9508.35)]	_____	_____	_____

Practice Tip

DOL Regulation Section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.

Departures From Unqualified Opinions

19. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended, par. 22 (AU 508.22)]	_____	_____	_____
20. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> ?	_____	_____	_____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended, pars. 22–27 (AU 508.22–.27)]	_____	_____	_____

Practice Tips

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended, par. 31 (AU 508.31)]

If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan's information system, and the service organization's controls over those services, is not available to obtain a sufficient understanding of internal control to plan the audit, it would be considered a scope limitation. [SAS 70, as amended, par. 10 (AU 324.10)]

Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit — Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

21. If an opinion is disclaimed because of a scope limitation:

a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the report avoid identifying procedures that were performed?	_____	_____	_____
d. Is the scope paragraph omitted?	_____	_____	_____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended, par. 63 (AU 508.63)]	_____	_____	_____

22. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion?² [SAS 58, as amended, par. 35 (AU 508.35)]

23. If a qualified opinion is to be expressed because of a GAAP departure:

a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash	_____	_____	_____

² The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended, pars. 46–49 (AU 508.46–.49)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
24. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with GAAP? [SAS 58, as amended, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____
25. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed? [AAG, pars. 13.25–13.29]	_____	_____	_____

Practice Tip

Consult the Topical Index to the AICPA *Professional Standards* under “Departures From Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

26. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identify the accompanying information?	_____	_____	_____
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	_____	_____	_____
e. State that the supplemental schedules are the responsibility of the plan’s management? (<i>Recommended but not a required disclosure.</i>) [AAG, par. 13.10]	_____	_____	_____

Practice Tip

Question 26 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103-8. In these situations, see Question 25 above and AAG, paragraph 13.25.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
27. Auditor's report requirements under DOL regulations:			
a. Is the auditor's report dated and manually signed? [AAG, App. A, par. A.50a, fn. 18]	_____	_____	_____
b. Does it indicate the city and state where issued? [AAG, App. A, par. A.50a, fn. 18]	_____	_____	_____
c. Does it identify the statements and schedules covered? [AAG, App. A, par. A.50a, fn. 18]	_____	_____	_____
d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	_____	_____	_____
e. State clearly the auditor's opinion of the financial statements and schedules covered by the report, and the accounting principles and practices reflected therein?	_____	_____	_____
f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520]	_____	_____	_____
g. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matter on the related financial statements? [29 CFR 2520.103-1(iv)]	_____	_____	_____
(1) Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others? [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520]	_____	_____	_____

Practice Tip

SAS 87, *Restricting the Use of an Auditor's Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

FSP Section 8400

Illustrative Financial Statements and Auditor's Reports

.01 This section illustrates certain applications of the provisions of chapter 3 of the Audit and Accounting Guide *Employee Benefit Plans* (the Guide), that apply for the annual financial statements of the following hypothetical plans:

- XYZ Company 401(k) Plan (full scope audit) [FSP section 8400.17–.19]
- Alpha Company 401(k) Employee Savings Plan (limited scope audit with supplemental schedules—together with auditor's report) [FSP section 8400.20–.24]
- XYZ Company Profit-Sharing Plan [FSP section 8400.25–.27]
- ABC Company Profit-Sharing Plan (with auditor's report) [FSP section 8400.28–.31]
- Sponsor Company Stock Ownership Plan [FSP section 8400.32–.34]

It does not illustrate other provisions of chapter 3 of the Guide that might apply in circumstances other than those assumed in this example. The formats presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

.02 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, ERISA requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.03 ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor. See the Alpha Company 401(k) Employee Savings Plan for an illustration of certain of the supplemental schedules.

.04 This section also includes the following illustrative auditor's reports (this checklist does not include an illustration of an auditor's report appropriate for an 11-K filing with the SEC):

- Unqualified opinion for profit-sharing plan (full scope audit) [FSP section 8400.05]
- Modified opinions on the supplemental schedules because of omitted information or an omitted schedule [FSP section 8400.06–.09]
- Modified opinions on the supplemental schedules because disclosures of a material prohibited transaction with a party in interest is omitted [FSP section 8400.10–.13]
- Limited-scope opinions [FSP section 8400.14–.16]

Practice Tip—11-K Filers

In December 2003, PCAOB Auditing Standard No. 1, *Reference in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (PC 130), was issued and cleared by the Securities and Exchange Commission. This standard requires that auditors' reports on engagements conducted in accordance with the Board's standards include a reference that the engagement was performed in accordance with the standards of the PCAOB. This would replace the previously required references to generally accepted auditing standards.

Plans that are required to file Form 11-Ks are deemed to be “issuers” under the Sarbanes-Oxley Act and must submit to the SEC an audit in accordance with the auditing and related professional practice standards promulgated by the Public Company Accounting Oversight Board (PCAOB). These plans may also be subject to ERISA and must submit to the U.S. Department of Labor (DOL) an audit in accordance with generally accepted auditing standards (GAAS) promulgated by the AICPA’s Auditing Standards Board. It is our understanding that the SEC will not accept an audit report that references GAAS, and the DOL will not accept an audit report that does *not* reference GAAS. Based on AICPA staff discussions with the SEC and PCAOB staff to seek clarification of the performance and reporting requirements for audits of 11-K filers, *firms will need to conduct their audits of these 11-K plans in accordance with two sets of standards and prepare two separate audit reports; an audit report referencing PCAOB standards for Form 11-K filings with the SEC and a separate audit report referencing GAAS for DOL filings.* The PCAOB and SEC staff believe that an opinion issued in accordance with PCAOB Auditing Standard No. 1 does not allow a reference to GAAS, hence a “dual” standard report is not appropriate and will not be accepted by the SEC.

Any questions regarding performance and reporting requirements of audits of financial statements of Form 11-K filers should be directed to the SEC Division of Corporation Finance, Office of the Chief Accountant at (202) 942-2960.

The following is an illustration of an auditor's report with an **unqualified opinion** on the financial statements of a profit-sharing plan.

.05

Independent Auditor's Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2 in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of *[identify]* are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.¹

[Signature of Firm]

[City and State]

[Date]

[AAG, pars. 13.06, 13.10, and 13.11]

¹ This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

The following are illustrations of paragraphs that should be added to the auditor's report when the auditor should modify his or her report on the supplemental schedules because of omitted information or an omitted schedule which is required under DOL regulations.

.06

**Modified Report—Omitted Information or Omitted
Schedule Required Under DOL Regulations**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose the historical cost of certain nonparticipant directed plan assets held by the Plan trustee [or custodian]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

or

The Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.16]

The following paragraphs should be added to the auditor's report when the auditor concludes that his or her opinion on the supplemental schedules should be qualified because a schedule, or information thereon, was omitted (when the schedules are not covered by a trustee's certification as to completeness and accuracy), or because information in a required schedule is materially inconsistent with the financial statements.

.07

**Qualified Opinion—Omitted or Incomplete
Schedule or Material Inconsistency**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose that the Plan had loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.16]

In the following illustration, Schedule H, line 4i—Schedule of Assets (Held at End of Year) which accompanies the Plan's financial statements does not disclose that the Plan has loans to participants. Because the omitted participant loan information is information that is not certified by the trustee or custodian, an omission of participant loan information would require that a qualified or adverse opinion be issued on the applicable supplemental schedules.

.08

**Modified Report—Omitted Information or Omitted Schedule
Required Under DOL Regulations in a Limited Scope Engagement**

Independent Auditor's Report

[Addressee]

[Same first and second paragraphs as the limited-scope report.]

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose that the Plan has loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.16]

or

In the following illustration, the Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions. Because the Schedule H, line 4j—Schedule of Reportable Transactions is information that is certified by the trustee or custodian, an omission of the schedule would require that an explanatory paragraph be added to the auditor's report.

.09

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the limited-scope report.]

The Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.16]

The following paragraphs should be added to the auditor's report on the plan's financial statements when the auditor concludes that his or her opinion on the supplemental schedules should be modified because disclosures of a material prohibited transaction with a party in interest is omitted.

.10

**Qualified Opinion—Disclosure of Material Prohibited
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The supplemental Schedule G, Part III—Schedule of Nonexempt Transactions that accompanies the plan's financial statements does not disclose that the Plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

.11

**Adverse Opinion—Disclosure of Material Prohibited
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The supplemental Schedule G, Part III—Schedule of Nonexempt Transactions that accompanies the plan's financial statements does not disclose that the Plan *[describe prohibited transaction]*. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of *[identify]* are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, because of the omission of the information discussed in the preceding paragraph are not fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

The following paragraphs should be added to the auditor's report on the plan's financial statements when the auditor decides to modify his or her report on the supplemental schedules because disclosure of a prohibited transaction with a party in interest that is **not material** to the financial statements has been omitted.

.12

**Modified Report—Disclosure of Immaterial Prohibited
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental Schedule G, Part III—Schedule of Nonexempt Transactions that accompanies the plan's financial statements does not disclose that the Plan [describe prohibited transaction]. Disclosure of this information, which is not considered material to the financial statements taken as a whole, is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

The following is an example of a qualified opinion issued on the financial statements of a profit-sharing plan, and the related supplemental schedules, when the auditor concludes that the plan has entered into a prohibited transaction with a party in interest that is also considered a related-party transaction and is material to the financial statements, and the transaction has not been properly disclosed in the notes to the financial statements and the required supplemental schedule.

.13

Independent Auditor's Report

[Addressee]

We have audited the accompanying statement of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 20X1 and 20X0, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X1. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Plan's financial statements do not disclose that the Plan [*describe related-party transaction*]. Disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X1 and 20X0, and the changes in net assets available for benefits for the year ended December 31, 20X1 in conformity with accounting principles generally accepted in the United States of America.

The Supplemental Schedule G, Part III—Schedule of Nonexempt Transactions that accompanies the plan's financial statements does not disclose that the plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.18]

The following are illustrations of **Limited-Scope** auditor reports.

.14

Independent Auditor's Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, as listed in the accompanying index. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2 that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee or custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.25]

The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects not to limit the scope of the audit in the current year even though the scope of the audit in the prior year was limited in accordance with DOL.

.15

Limited-Scope Audit in Prior Year

Independent Auditor's Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, investment assets held by ABC Bank, the trustee of the Plan, and transactions in those assets were excluded from the scope of our audit of the Plan's 20X1 financial statements, except for comparing the information provided by the trustee, which is summarized in Note X, with the related information included in the financial statements.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the Plan's financial statements as of December 31, 20X1. The form and content of the information included in the 20X1 financial statements, other than that derived from the information certified by the trustee, have been audited by us and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the financial statements, referred to above, of XYZ Company 401(k) Plan as of December 31, 20X2, and for the year then ended present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit of the Plan's financial statements as of and for the year ended December 31, 20X2, was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 20X2, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects to exclude from the auditor's examination plan assets held by banks or insurance companies in the current year, whereas the scope of the audit in the prior year was unrestricted.

.16

Limited-Scope Audit in Current Year

Independent Auditor's Report

[Addressee]

We were engaged to audit the accompanying statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X2, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2 and the supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets (Held at End of Year), (2) Schedule H, line 4j—Schedule of Reportable Transactions, and (3) Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible as of or for the year ended December 31, 20X2. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing the information with the related information included in the 20X2 financial statements and the supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 20X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information in the Plan's 20X2 financial statements that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules as of or for the year ended December 31, 20X2. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

We have audited the statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X1, and in our report dated May 20, 20X2, we expressed our opinion that such financial statement presents fairly, in all material respects, the net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X1, in conformity with accounting principles generally accepted in the United States of America.

[Signature of Firm]

[City and State]

[Date]

.17

XYZ COMPANY 401(K) PLAN
Statement of Net Assets Available for Benefits

	<i>December 31,</i>	
	<u>20X1</u>	<u>20X0</u>
Assets		
Investments (See Note C)	\$9,177,000	\$7,995,000
Receivables:		
Employer contribution	14,000	10,000
Participant contributions	<u>52,000</u>	<u>50,000</u>
Total receivables	<u>66,000</u>	<u>60,000</u>
Total assets	<u>9,243,000</u>	<u>8,055,000</u>
Liabilities		
Accounts payable	10,000	20,000
Accrued expenses	<u>15,000</u>	<u>—</u>
Total liabilities	<u>25,000</u>	<u>20,000</u>
Net assets available for benefits	<u>\$9,218,000</u>	<u>\$8,035,000</u>

See accompanying notes to the financial statements.

XYZ Company 401(k) Plan
Statement of Changes in Net Assets Available for Benefits

	<i>Year Ended</i> <i>December 31, 20X1</i>
Additions:	
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments (see Note C)	\$ 279,000
Interest	439,000
Dividends	165,000
	<u>883,000</u>
Less investment expenses	(50,000)
	<u>833,000</u>
Contributions:	
Participant	900,000
Employer	699,000
	<u>1,599,000</u>
Total additions	<u>2,432,000</u>
Deductions:	
Deductions from net assets attributed to:	
Benefits paid to participants	1,144,000
Administrative expenses (see Note F)	105,000
Total deductions	<u>1,249,000</u>
Net increase	1,183,000
Net assets available for benefits:	
Beginning of year	<u>8,035,000</u>
End of year	<u><u>\$9,218,000</u></u>

See accompanying notes to the financial statements.

.19

XYZ COMPANY 401(K) PLAN
Notes to Financial Statements

A. Description of Plan

The following description of the XYZ Company ("Company") 401(k) Plan (Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. **General.** The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. **Contributions.** Each year, participants may contribute up to 12 percent of pretax annual compensation, as defined in the Plan. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers two mutual funds and an insurance investment contract as investment options for participants. The Company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the Plan. The matching Company contribution is invested directly in XYZ Company common stock. Additional profit sharing amounts may be contributed at the option of the Company's board of directors and are invested in a portfolio of investments as directed by the Company. Contributions are subject to certain limitations.
3. **Participant Accounts.** Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and (b) Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. **Vesting.** Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Company's contribution portion of their accounts is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. **Participant Loans.** Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their account balance, whichever is less. The loans are secured by the balance in the participant's account and bear interest at rates that range from 6 percent to 10 percent, which are commensurate with local prevailing rates as determined quarterly by the Plan administrator. Principal and interest is paid ratably through monthly payroll deductions.
6. **Payment of Benefits.** On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten-year period. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
7. **Forfeited Accounts.** At December 31, 20X1 and 20X2 forfeited nonvested accounts totaled \$7,500 and \$5,000, respectively. These accounts will be used to reduce future employer contributions. Also, in 20X1, employer contributions were reduced by \$5,000 from forfeited nonvested accounts.

B. Summary of Accounting Policies*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value except for its benefit-responsive investment contract, which is valued at contract value (Note E). Quoted market prices are used to value investments. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year end. Participant loans are valued at their outstanding balances, which approximate fair value.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits

Benefits are recorded when paid.

C. Investments

The following presents investments that represent 5 percent or more of the Plan's net assets.

	<i>December 31,</i>	
	<i>20X1</i>	<i>20X0</i>
XYZ Company common stock, 400,000 and 390,000 shares, respectively	\$ 470,000*	\$ 420,000*
ABC Corporation common stock, 390,000 and 380,000 shares, respectively	490,000*	450,000*
Prosperity Investments Common Stock Fund, 226,250 and 200,000 shares, respectively	2,262,500*	2,000,000*
Prosperity Investments Balanced Fund, 40,000 and 210,000 shares, respectively	1,422,000	2,100,000
Investment Contract with National Insurance Company, #2012A, matures 12/31/X5 (Note E)	1,500,000	650,000

* Nonparticipant-directed

During 20X1, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$279,000 as follows:

Mutual funds	\$229,000
Common stock	30,000
Corporate bond	30,000
U.S. Government Securities	(10,000)
	<u>\$279,000</u>

D. Nonparticipant-Directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

	<i>December 31,</i>	
	<i>20X1</i>	<i>20X0</i>
Net Assets:		
Common stock	\$ 960,000	\$ 870,000
Mutual funds	2,262,500	2,000,000
Corporate bonds	307,500	255,000
U.S. Government Securities	225,000	120,000
	<u>\$3,755,000</u>	<u>\$3,245,000</u>

	<i>Year Ended December 31, 20X1</i>
Changes in Net Assets:	
Contributions	\$699,000
Dividends	165,000
Net appreciation	60,000
Benefits paid to participants	(280,000)
Transfers to participant-directed investments	(134,000)
	<u>\$510,000</u>

E. Investment Contract With Insurance Company

In 20X0, the Plan entered into a benefit-responsive investment contract with National Insurance Company (National). National maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The contract is included in the financial statements at contract value as reported to the Plan by National. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The average yield and crediting interest rates were approximately 8 percent for 20X1 and 20X0. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than 4 percent. Such interest rates are reviewed on a quarterly basis for resetting.

F. Related-Party Transactions

Certain Plan investments are shares of mutual funds managed by Prosperity Investments. Prosperity Investments is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for the investment management services amounted to \$105,000 for the year ended December 31, 20X1.

G. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100 percent vested in their employer contributions.

H. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated August 30, 1986, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

I. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

.20

Independent Auditor's Report

To the Pension Committee and Participants of the
Alpha Company 401(k) Employee Savings Plan:

We were engaged to audit the accompanying statements of net assets available for benefits of the Alpha Company 401(k) Employee Savings Plan (the "Plan") as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2 and the supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of or for the year ended December 31, 20X2. These financial statements and supplemental schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 5, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the 20X2 and 20X1 financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of December 31, 20X2 and 20X1 and for the year ended December 31, 20X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedule taken as a whole. The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

As described in Note 7, as of December 31, 20X2, a portion of the plan's assets were spun-off to create the Alpha Company Profit Sharing and 401(k) Retirement Plan for Part-Time Employees.

[Signature of Firm]

[City and State]

[Date]

.21

**ALPHA COMPANY 401(k)
EMPLOYEE SAVINGS PLAN
Statement of Net Assets Available for Benefits**

	<i>December 31,</i>	
	<u>20X2</u>	<u>20X1</u>
Investments (See Notes 3 and 5)	<u>\$27,546,166</u>	<u>\$37,604,618</u>
Contributions receivable:		
Employer	25,297	45,826
Participant	<u>150,145</u>	<u>236,286</u>
Total contributions receivable	<u>175,442</u>	<u>282,112</u>
Net assets available for benefits	<u><u>\$27,721,608</u></u>	<u><u>\$37,886,730</u></u>

The accompanying notes are an integral part of these financial statements.

**ALPHA COMPANY 401(k)
EMPLOYEE SAVINGS PLAN**

Statement of Changes in Net Assets Available for Benefits

	<i>Year Ended December 31, 20X2</i>
ADDITIONS:	
Contributions:	
Participants	\$ 2,515,156
Employer	<u>386,598</u>
Total contributions	<u>2,901,754</u>
Investment income:	
Net appreciation in fair value of investments (See Notes 3 and 5)	3,481,804
Interest and dividend income	<u>2,464,140</u>
Total investment income	<u>5,945,944</u>
Total additions	<u>8,847,698</u>
DEDUCTIONS:	
Benefits paid to participants	5,141,476
Other expenses	<u>10,540</u>
Total deductions	<u>5,152,016</u>
NET INCREASE	3,695,682
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of year	<u>\$37,886,730</u>
End of year, before transfer of plan assets to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	\$41,582,412
Transfer of plan assets to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	<u>(13,860,804)</u>
Net assets available for plan benefits after transfer to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	<u>\$27,721,608</u>

The accompanying notes are an integral part of these financial statements.

.23

**ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN**

Notes to Financial Statements and Schedules

December 31, 20X2 and 20X1

1. Description

The following description of the Alpha Company 401(k) Employee Savings Plan (the "Plan") is provided for general information purposes only. More complete information regarding the Plan's provisions may be found in the plan document.

General. The Plan is a defined contribution plan established by the Alpha Company (the "Company") under the provision of Section 401(a) of the Internal Revenue Code ("IRC"), which includes a qualified cash or deferred arrangement as described in section 401(k) of the IRC, for the benefit of eligible employees of the Company. All employees of the Company who have completed one year of service, as defined, are eligible to participate, provided they are at least 21 years of age. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")

Plan Administration. The Plan is administered by the Pension Committee which is appointed by the board of directors of the Company. The Plan's trustee, ABC Bank (the "Trustee"), is responsible for the custody and management of the Plan's assets.

Contributions. Eligible employees can contribute from 1 percent to 8 percent of their compensation as defined by the Plan, subject to certain limitations under the IRC. The Company provides a mandatory matching contribution equal to 50 percent of each participant's contribution up to a maximum of 6 percent of the participant's compensation and an additional contribution, which may be made on a discretionary basis, dependent on the Company's operating results. The participant contributions and the company matching contributions may be allocated to five mutual funds or the DEF Bank GIC fund as the participant directs.

Vesting. Participants are fully vested in their contributions and the earnings thereon. Vesting in employer matching contributions and the earnings thereon is based on years of continuous service. A participant vests according to the following schedule:

Less than two years	0%
Two years	25
Three years	50
Four years	75
Five or more years	100

Forfeitures are used to reduce employer matching contributions.

Payment of Benefits. On retirement, death, disability, or termination of service, a participant (or participant's beneficiary in the event of death) may elect to receive a lump-sum distribution equal to the participant's vested account balance. In addition, hardship distributions are permitted if certain criteria are met.

Participant Accounts. Individual accounts are maintained for each of the Plan's participants to reflect the participant's contributions and related employer matching contributions, as well as the participant's share of the Plan's income and any related administrative expenses. Allocations of income and expenses are based on the proportion that each participant's account balance bears to the total of all participant account balances.

Participant Loans. Effective April 15, 20X2, a participant may borrow from his or her account a minimum of \$500 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested

account balance. Loan terms range from one to five years. The loans are secured by the balance in the participant's account and bear interest at a rate of prime plus 1 percent. Interest rates range from 8 percent to 12 percent principal and interest are paid through payroll deductions. A \$50 loan application fee is charged to the participant's pretax account.

2. Summary of Significant Accounting Policies

Basis of Accounting and Use of Estimates

The accompanying financial statements are prepared on the accrual basis of accounting. The preparation of the financial statements in conformity with generally accepted accounting principles requires the Plan's management to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from these estimates.

Income Recognition

Interest income is recorded as earned on the accrual basis. Dividend income is recorded on the ex-dividend date.

Investment Valuation

Mutual funds are stated at fair value as determined by quoted market prices, which represents the net asset value of shares held by the plan at year end. The DEF Bank GIC Fund is presented at contract value, which approximates its fair value. Participant notes receivable are valued at cost which approximates fair value.

Net Appreciation (Depreciation in Fair Value of Investments)

Net realized and unrealized appreciation (depreciation) is recorded in the accompanying statement of changes in net assets available for benefits as net appreciation in fair value of investments.

Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

Administrative Expenses

Certain expenses incurred in connection with the general administration of the Plan are paid by the Plan and are recorded in the accompanying statement of changes in net assets available for benefits as other expenses.

3. Investments

The following presents investments that represent 5 percent or more of the Plan's net assets:

	<i>December 31,</i>	
	<i>20X2</i>	<i>20X1</i>
DEF Bank GIC Fund, 15,096,829, and 8,538,036 units, respectively	\$15,096,929	\$8,538,036
ABC Bank Growth Fund, 314,881, and 352,416 units, respectively	2,575,903	2,882,760
ABC Bank Balanced Fund, 604,941, and 648,687 units, respectively	7,004,561	7,784,250

During 20X2, the Plan's mutual fund investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$3,481,804.

4. Tax Status

Although the Plan has received a favorable determination letter dated April 30, 20X3 from the Internal Revenue Service, it has not been updated for the latest plan amendments. However, the

plan administrator believes that the Plan is designed and is being operated in compliance with the applicable requirements of the IRC. Therefore, the plan administrator believes that the Plan was qualified and the related trust was tax-exempt for the years ended December 31, 20X2 and 20X1.

5. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become fully vested in their account balances.

6. Information Certified by the Plan's Trustee

The plan administrator has elected the method of annual reporting compliance permitted by 29 CFR 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, the Trustee has certified that the following data included in the accompanying financial statements and supplemental schedules is complete and accurate.

	<i>December 31,</i>	
	<i>20X2</i>	<i>20X1</i>
Investments, at fair value		
Mutual funds	\$11,844,737	\$29,066,582
DEF Bank GIC fund	15,096,829	8,538,036
Participant notes receivable	604,600	0
Total	<u>\$27,546,166</u>	<u>\$37,604,618</u>

	<i>Year Ended</i>
	<i>December 31, 20X2</i>
Investment income:	
Interest and dividends	\$2,464,140
Net appreciation in fair value of investments	<u>3,481,804</u>
Total investment income	<u>\$5,945,944</u>

The Plan's independent accountants did not perform auditing procedures with respect to this information, except for comparing such information to the related information included in the financial statements and supplemental schedules.

7. Reconciliation to Form 5500

As of December 31, 20X2, the Plan had approximately \$10,544 of pending distributions to participants who elected to withdraw from the Plan. This amount is recorded as a liability in the Plan's Form 5500 however, this amount is not recorded as a liability in the accompanying statements of net assets available for benefits in accordance with generally accepted accounting principles.

8. Plan Spin-Off

Effective December 31, 20X2, the participant accounts for the part-time employees-electronic operations of Alpha Company were spun-off to create the Alpha Company Profit Sharing and 401(k) Retirement Plan for part-time employees. As of December 31, 20X2, assets related to the participants of the Alpha Company Profit Sharing and 401(k) Retirement Plan for part-time employees were transferred out of the plan.

SCHEDULE I

ALPHA COMPANY 401(K)
EMPLOYEE SAVINGS PLAN
Schedule of Assets (Held at End of Year)
December 31, 20X2

<i>Identify of Issuer, Borrower, Lessor, or Similar Party</i>	<i>Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value</i>	<i>Cost</i>	<i>Current Value</i>
* DEF Bank	DEF Bank GIC Fund (15,096,829 units)	**	\$15,096,829
* ABC Bank	ABC Bank Income Fund (152,345 units)	**	1,377,304
* ABC Bank	ABC Bank Growth Fund (314,881 units)	**	2,575,903
* ABC Bank	ABC Bank Balanced Fund (604,941 units)	**	7,004,561
* ABC Bank	ABC Bank International Equity Fund (55,061 units)	**	473,401
* ABC Bank	ABC Bank Small Companies Fund (36,713 units)	**	413,568
* Participants	Participant Notes Receivable	**	604,600
	Total investments	**	\$27,546,166

* Represents a party in interest.

** Cost omitted for participant directed investments.

The accompanying notes are an intergral part of this schedule.

The above information has been certified by ABC Bank, the Trustee, as complete and accurate.

.25

Profit-Sharing Plan**XYZ COMPANY PROFIT-SHARING PLAN****Statements of Net Assets Available for Benefits**

	<i>December 31,</i>	
	<u>20X1</u>	<u>20X0</u>
Assets		
Investments:		
At fair value—(Notes B, C, and E)		
U.S. government securities	\$ 455,000	\$ 425,000
Corporate bonds and debentures	3,900,000	3,730,000
Common stocks	2,822,000	1,931,000
Certificates of deposit	1,000,000	1,000,000
	<u>8,177,000</u>	<u>7,086,000</u>
At contract value—(Note D)		
Investment contract with insurance company	1,000,000	1,000,000
Total investments	<u>9,177,000</u>	<u>8,086,000</u>
Receivables:		
Employer's contribution	14,000	12,000
Participants' contributions	52,000	47,000
Due from broker for securities sold	403,000	357,000
Accrued interest and dividends	77,000	62,000
	<u>546,000</u>	<u>478,000</u>
Cash	<u>280,000</u>	<u>198,000</u>
Total assets	<u>10,003,000</u>	<u>8,762,000</u>
Liabilities		
Accounts payable	10,000	8,000
Accrued expenses	100,000	150,000
Due to broker for securities purchased	75,000	63,000
Total liabilities	<u>185,000</u>	<u>221,000</u>
Net assets available for benefits	<u>\$9,818,000</u>	<u>\$8,541,000</u>

The accompanying notes are an integral part of these financial statements.

.26

XYZ COMPANY PROFIT-SHARING PLAN
Statement of Changes in Net Assets Available for Benefits

	<i>Year Ended December 31, 20X1</i>
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments (Note C)	\$ 269,000
Interest	449,000
Dividends	165,000
	<u>883,000</u>
Less investment expenses	(50,000)
	<u>833,000</u>
Contributions:	
Employer's	1,014,000
Participants'	585,000
	<u>1,599,000</u>
Total additions	<u>2,432,000</u>
Deductions from net assets attributed to:	
Benefits paid to participants	1,050,000
Administrative expenses	105,000
Total deductions	<u>1,155,000</u>
Net increase	1,277,000
Net assets available for plan benefits:	
Beginning of year	8,541,000
End of year	<u><u>\$9,818,000</u></u>

The accompanying notes are an integral part of these financial statements.

.27

XYZ COMPANY PROFIT-SHARING PLAN**Notes to Financial Statements****A. Description of Plan**

The following description of the XYZ Company ("Company") Profit-Sharing Plan ("Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. **General.** The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. **Contributions.** Each year, the Company contributes to the Plan 10 percent of its current profits before pension and profit-sharing costs and income taxes. Additional amounts may be contributed at the option of the Company's board of directors. Participants may contribute up to 10 percent of their annual wages before bonuses and overtime. Contributions are subject to certain limitations.
3. **Participant Accounts.** Each participant's account is credited with the participant's contribution and an allocation of (a) the Company's contribution, (b) Plan earnings, and (c) forfeitures of terminated participants' nonvested accounts and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. **Vesting.** Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the Company contributions portion of their accounts plus earnings thereon is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. **Payment of Benefits.** On termination of service due to death, disability or retirement, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in either a lump-sum amount, or in annual installments over a ten year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
6. **Forfeited Accounts.** At December 31, 20X1 forfeited accounts totaled \$10,000. These accounts will be reallocated to participants in the same manner as employer contributions.

B. Summary of Accounting Policies*Basis of Accounting*

The financial statements of the Plan are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value except for its investment contract which is valued at contract value with an insurance company (Note D). If available, quoted market prices are used to value investments. The amounts shown in Note C for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at fair value. In

general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices. Certificates of deposit are valued based on amortized cost or original cost plus accrued interest.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits

Benefits are recorded when paid.

C. Investments

Except for its investment contract with an insurance company (Note D), the Plan's investments are held in a bank-administered trust fund. The following table presents investments. Investments that represent 5 percent or more of the Plan's net assets are separately identified.

	<i>December 31,</i>	
	<i>20X1</i>	<i>20X0</i>
Investments at Fair Value as Determined by		
Quoted Market Price		
U.S. government securities	\$ 455,000	\$ 425,000
Corporate bonds and debentures:		
National Auto 7%, face value of \$860,000 and		
\$1,000,000, respectively, bonds due 12/31/X5	875,000	1,226,000
Other	2,775,000	2,328,000
Common stocks:		
Bizco Corporation, 100,000 and 90,000 shares,		
respectively	950,000	685,000
Other	1,497,000	981,000
	<u>6,552,000</u>	<u>5,645,000</u>
Investments at Estimated Fair Value		
Certificates of Deposit	1,000,000	1,000,000
Corporate bonds and debentures	250,000	176,000
Common stocks	375,000	265,000
	<u>1,625,000</u>	<u>1,441,000</u>
Investment at Contract Value		
Investment contract with National Insurance		
Company, #2012A, matures 12/31/X2 (Note D)	1,000,000	1,000,000
Total investments	<u>\$9,177,000</u>	<u>\$8,086,000</u>

During 20X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$269,000 as follows:

Net Change in Fair Value	
	<u>Year Ended December 31, 20X1</u>
Investments at Fair Value as Determined by Quoted Market Price	
U.S. government securities	\$ (15,000)
Corporate bonds and debentures	(175,000)
Common stocks	<u>439,000</u>
Net change in fair value	<u>249,000</u>
Investments at Estimated Fair Value	
Corporate bonds and debentures	(5,000)
Common stocks	<u>25,000</u>
	<u>20,000</u>
Net change in fair value	<u>\$269,000</u>

D. Investment Contract With Insurance Company

In 20X0, the Plan entered into an investment contract with National Insurance Company (National). National maintains the contributions in a pooled account. The account is credited with earnings on the underlying investments and charged for Plan withdrawals and administrative expenses charged by National. The contract is included in the financial statements at contract value, (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses) because it is fully benefit responsive. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 20X1 and 20X0 was \$1,082,000 and \$1,040,000, respectively. The average yield and crediting interest rates were approximately five percent for 20X1 and 20X0. The crediting interest rate is based on an agreed-upon formula with the issuer, but cannot be less than zero.

E. Certificates of Deposit

Certificates of deposit at December 31, 20X1 and 20X0 consist of amounts on deposit at banks or savings and loan associations, with interest rates ranging from 5.4 percent to 9.1 percent, with maturities of three months or less. These deposits include \$400,000 and \$500,000 which are in excess of federally insured limits at December 31, 20X1 and 20X0, respectively.

F. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts. Any unallocated assets of the plan shall be allocated to participant accounts and distributed in such a manner as the company may determine.

G. Tax Status

The Internal Revenue Service has determined and informed the Company by letter dated August 30, 20XX, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable provisions of the IRC.

H. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 20X1 and 20X0 to Form 5500:

	<u>20X1</u>	<u>20X0</u>
Net assets available for benefits per the financial statements	\$9,818,000	\$8,541,000
Amounts allocated to withdrawing participants	<u>(50,000)</u>	<u>(35,000)</u>
Net assets available for benefits per the Form 5500	<u>\$8,768,000</u>	<u>\$8,506,000</u>

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 20X1, to Form 5500:

Benefits paid to participants per the financial statements	\$1,050,000
Add: Amounts allocated to withdrawing participants at December 31, 20X1	50,000
Less: Amounts allocated to withdrawing participants at December 31, 20X0	<u>(35,000)</u>
Benefits paid to participants per Form 5500	<u>\$1,065,000</u>

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, 20X1, but not yet paid as of that date.

I. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

.28

Independent Auditor's Report

To the Pension Committee
of the ABC Company Profit-Sharing Plan:

We have audited the accompanying statements of net assets available for benefits of ABC Company Profit-Sharing Plan (the Plan) as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

[Signature of Firm]

[City and State]

[Date]

.29

ABC COMPANY PROFIT SHARING PLAN
Statements of Net Assets Available for Benefits
(In thousands)

	<i>December 31,</i> <u>20X2</u>	<u>20X1</u>
Assets		
Investment in master trust	\$3,568,966	\$2,885,456
Loans to participants	<u>189,314</u>	<u>181,056</u>
	<u>3,758,280</u>	<u>3,066,512</u>
Receivables		
Contributions from ABC Company	156,000	156,354
Other	2,966	2,672
Interest and dividends	<u>2,222</u>	<u>1,758</u>
Net assets available for benefits	<u><u>\$3,919,468</u></u>	<u><u>\$3,227,296</u></u>

The accompanying notes are an integral part of these financial statements.

.30

ABC COMPANY PROFIT SHARING PLAN
Statements of Changes in Net Assets Available for Benefits
Years Ended December 31, 20X2 and 20X1

(In thousands)

	<i>December 31,</i>	
	<u>20X2</u>	<u>20X1</u>
Additions		
Contributions		
Participants	\$ 165,704	\$ 158,792
ABC Company	156,000	156,354
Forfeitures	<u>3,802</u>	<u>4,446</u>
Total contributions	<u>325,506</u>	<u>319,592</u>
Income from investment in master trust	<u>605,204</u>	<u>50,640</u>
Deductions		
Withdrawals	227,202	220,606
Administrative fees	<u>3,118</u>	<u>3,564</u>
Total deductions	<u>230,320</u>	<u>224,170</u>
Net additions	<u>700,390</u>	<u>146,062</u>
Net assets available for benefits at beginning of year	3,227,296	3,223,610
Transfer to other plans	(8,218)	(142,376)
Net assets available for benefits at end of year	<u>\$3,919,468</u>	<u>\$3,227,296</u>

The accompanying notes are an integral part of these financial statements.

ABC Company Profit-Sharing Plan
Notes to Financial Statements

A. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Investment in Master Trust

The Investment in the Master Trust Fund is stated at fair value. The majority of investment values are ascertained from national security exchanges. ABC Company Common Stock, which is traded on national securities exchanges, and other equity securities, are valued within the Master Trust Fund at the last reported sales price on the last business day of the Plan year. All government and corporate debentures are valued at the last reported sales price on the last business day of the Plan year on a national security exchange plus any accrued interest within the Master Trust Fund. If there are no such sales or listings on a national security exchange, alternative sources are used. Loans to participants are stated at cost which approximates fair value.

Withdrawals and Exchanges

Withdrawals and exchanges between investment fund options by participants are recorded based upon the specific proceeds and cost of the investment at the date of withdrawal or exchange.

Reclassification of Prior Year Information

Certain prior year information has been reclassified to conform with current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

B. Description of Plan

ABC Company Profit-Sharing Plan (the Plan) was authorized by the Board of Directors of ABC Company and was effective January 1, 20XX for the benefit of certain employees of ABC Company and its subsidiaries (the Company). The Plan is a defined contribution profit-sharing plan maintained primarily for the purpose of providing retirement income for participants and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Prior to July 20X2, employees become eligible to participate in the Plan upon completion of two years of service or, if the employee is 21 years of age or older, upon the completion of one year of service. Effective July 1, 20X2, employees become eligible to participate in the Plan upon completion of one year of service regardless of age. This eligibility change in the Plan did not have a material effect. Employees represented by labor organizations are not eligible to participate in the Plan unless the Company and the labor organization specifically agree to the contrary.

Plan participants may make personal deposits to the Plan on either or both a tax deferred and an after-tax basis. Company contributions to the Plan are set each year at the discretion of the Company's Board of Directors for the prior Plan year and are irrevocable. The Company contributions and forfeitures are first used to restore the previously forfeited accounts of rehired

participants pursuant to Plan provisions. The remainder of such contributions and forfeitures are then allocated to Plan participants, as described below: one third is allocated among participants who made personal deposits to the Plan, pro rata, based upon the amounts of their deposits of up to 6 percent of compensation. Two thirds are allocated among participants as follows: (i) each participant who has received compensation in excess of the Social Security wage base for the year is allocated an amount equal to such excess times the maximum amount allowable under Code Section 401(l); and (ii) any amount remaining is allocated among all participants in proportion to the total compensation of each for the year. Allocations to collective bargaining unit employees are offset by obligations of the Company to contribute to a collective bargaining unit plan. A participant's 20X2 compensation in excess of \$140,000 (adjusted periodically) is excluded in determining the amount of Company contribution and forfeitures allocated to the participant.

Company contributions made on behalf of participants that are not based upon deposits made by such participants vest on a graduated schedule. For all participants who perform at least one hour of service in any year beginning on or after January 1, 20XX, the schedule commences with 25 percent at three years of service and increases annually to full vesting at five years of service. Personal deposits of participants and Company contribution allocations based upon personal deposits of participants fully vest immediately.

The Plan presently maintains **four** investment fund options within the Master Trust in which participants may invest.

Participants may apportion their deposits between more than one investment fund option and can change their current deposit investment mix as often as desired. Existing participant account balances can be exchanged between investment fund options once per day.

Each participant's share of the Company contribution and forfeitures is automatically invested according to their current deposit investment mix.

Participants not making personal deposits may specify an investment option for the Company contribution. If a specification is not made, the Company contribution will be invested in the Company Stock Fund.

Usual and customary investment manager fees, trustee fees, and all outside administrative costs are paid by the Plan.

Upon separation from service, participants can elect to withdraw balances either in a lump sum or in installments, or the balances can be left in the Plan. Individuals who transferred amounts to the Plan which are attributable to the former ABC Company Retirement Plan may receive their entire Plan account balance as a deferred annuity. Active employees may withdraw after-tax personal deposits at any time, but may only withdraw tax deferred personal deposits upon the occurrence of an extreme financial hardship. Participants may also obtain loans from the Plan within certain limits.

C. Investments in Master Trust

The Plan's assets are held by Responsible Trust Company, the Trustee of the Plan, which executes all transactions therein under the direction of the Benefit Plans Committee. The assets are held in a Master Trust, commingled with assets of the Company's other benefit plans. The Company's benefit plans participating in the Master Trust collectively own, through the Master Trust, the assets based upon investment percentages. Participant transaction activity is designated to specific plans. Accordingly, each plan's investment percentage in the Master Trust changes regularly. Income earned by the Master Trust is allocated to the various plans based upon the investment percentage on the day the income is earned. At December 31, 20X2 and 20X1, the plan's interest in the master trust was approximately 57 percent and 54 percent, respectively.

The following table presents the fair values of investments for the Master Trust and the Plan's percentage interest in each investment:

	December 31,			
	20X2		20X1	
Common Stock	1,008,746	7%	744,877	7%
Corporate Bonds	854,772	8%	803,191	8%
Debt Investments	3,921,062	35%	3,287,780	33%
U.S. Government Securities	551,762	7%	665,458	6%
	<u>\$6,336,342</u>		<u>\$5,501,306</u>	

Investment income for the master trust is as follows:

	December 31,			
	20X2		20X1	
Net appreciation (depreciation) in fair value of investments:				
Common Stock	\$ 24,712	7%	\$ 9,086	7%
Corporate Bonds	114,423	8%	(199,053)	8%
Debt Investments	707,501	35%	(123,446)	33%
U.S. Government Securities	114,904	7%	15,023	6%
Total	<u>961,540</u>		<u>(298,390)</u>	
Interest:				
Corporate Bonds	3,808	8%	3,205	8%
Debt Investments	3,360	35%	2,828	33%
U.S. Government Securities	15,234	7%	12,819	6%
Total	<u>22,402</u>		<u>18,852</u>	
Dividends From Common Stock	30,060	7%	22,300	7%
Total	<u>\$1,014,002</u>		<u>\$(257,238)</u>	

D. Asset Transfers

The Twinkle division was sold during 20X1. Plan assets totaling \$142,376,936 for those participants continuing employment with Twinkle were transferred to Twinkle Retirement Plan in 20X1. The 20X1 Company contribution attributable to those participants totaling \$8,218,054 was transferred to the Twinkle Retirement Plan in 20X2, shortly following payment of the contribution in March 20X2. Twinkle is not administered by or affiliated with ABC Company.

E. Income Tax Status

The Internal Revenue Service ruled on May 15, 20X2 that the Plan qualifies under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the underlying trust is not subject to tax under IRC Section 501(a). Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Plan Administrator is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

F. Plan Termination

Although it has not expressed any interest to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their accounts.

G. Transactions With Parties-in-Interest

During 20X2 and 20X1, the ABC Company Stock Fund received \$8,441,804 and \$6,124,664, respectively, in common stock dividends from ABC Company.

H. Subsequent Event

ABC Company is plan sponsor for XYZRP (XYZ Company Retirement Plan), a frozen retirement plan which is maintained for members of XYZRP who had balances in the plan when ABC Company merged with XYZ Company, Inc. in 19W0. The Plan was established January 1, 19W1 and since that time no employee or employer contributions have been made to XYZRP for plan years subsequent to 19W0. Of the approximately 28,600 XYZRP participants, over 24,000 also have Plan accounts. Recently, members of XYZRP were balloted to determine their desire to merge XYZRP with the Plan. The voting effort was completed June 15, 20X3 with a large majority of XYZRP members voting in favor of the merger. Based on that outcome, XYZRP will be merged into the Plan effective August 31, 20X3. As of July 15, 20X3, XYZRP assets are approximately \$2.6 billion. Plan features will not change as a result of the merger.

.32

Employee Stock Ownership Plan

SPONSOR COMPANY STOCK OWNERSHIP PLAN

Statements of Net Assets Available for Benefits*

	December 31,					
	20X2			20X1		
	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>
Assets:						
Investment in sponsor company common stock, at fair value	\$34,890,000	\$57,430,000	\$ 92,320,000	\$24,568,000	\$ 47,015,000	\$71,583,000
Receivables:						
Employer contributions	—	8,607,000	8,607,000	—	7,062,000	7,062,000
Dividends and interest	570,000	459,000	1,029,000	280,000	3,000	283,000
Cash and cash equivalents	156,000	863,000	1,019,000	101,000	448,000	549,000
Total assets	<u>\$35,616,000</u>	<u>\$67,359,000</u>	<u>\$102,975,000</u>	<u>\$24,949,000</u>	<u>\$ 54,528,000</u>	<u>\$79,477,000</u>
Liabilities:						
Interest payable	—	1,396,000	1,396,000	—	1,033,000	1,033,000
Loan payable	—	73,970,000	73,970,000	—	80,000,000	80,000,000
Total liabilities	<u>—</u>	<u>75,366,000</u>	<u>75,366,000</u>	<u>—</u>	<u>81,033,000</u>	<u>81,033,000</u>
Net assets available (deficit) for plan benefits	<u>\$35,616,000</u>	<u>\$(8,007,000)</u>	<u>\$ 27,609,000</u>	<u>\$24,949,000</u>	<u>\$(26,505,000)</u>	<u>\$ (1,556,000)</u>

The accompanying notes are an integral part of these financial statements.

* The columns reflected in the example are appropriate for the presentation of a leveraged ESOP. For a non-leveraged ESOP, the presentation would reflect only the total column without the segregation between allocated and unallocated.

Allocated and unallocated designations distinguish between assets that belong to plan participants and those that are still available as collateral for the ESOP loan. Under ERISA, the lender has access to the securities held by the plan, that represent unallocated employer contributions to service the debt, and any earnings on those amounts. Earnings on temporary cash investments also are available to the lender.

An accrued employer contribution for current or future debt service is, therefore, reflected on the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits in the Unallocated column. In contrast, an employer contribution accrued to fund distributions to terminated participants is reflected in the Allocated column.

This distinction is *not* reflected in the participant account balances when reporting to the participant under ERISA. Contributions accrued for future debt service are allocated to the accounts of plan participants.

.33

SPONSOR COMPANY STOCK OWNERSHIP PLAN**Statement of Changes in Net Assets****Available for Benefits**

	<i>December 31, 20X2</i>		
	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>
Investment income			
Net unrealized appreciation in market value of investments	\$ 9,205,000	\$15,052,000	\$24,257,000
Interest	31,000	58,000	89,000
Dividends	1,380,000	2,184,000	3,564,000
Employer contributions	—	11,524,000	11,524,000
Allocation of 142,000 shares of common stock of Sponsor Company, at market	4,637,000	—	4,637,000
	<u>15,253,000</u>	<u>28,818,000</u>	<u>44,071,000</u>
Interest expense	—	5,683,000	5,683,000
Distributions to participants	4,586,000	—	4,586,000
Allocation of 142,000 shares of common stock of Sponsor Company, at market	—	4,637,000	4,637,000
Total deductions	<u>4,586,000</u>	<u>10,320,000</u>	<u>14,906,000</u>
Net increase	10,667,000	18,498,000	29,165,000
Net assets (deficit) available for benefits:			
Beginning of year	<u>24,949,000</u>	<u>(26,505,000)</u>	<u>(1,556,000)</u>
End of year	<u>\$35,616,000</u>	<u>\$ (8,007,000)</u>	<u>\$27,609,000</u>

The accompanying notes are an integral part of these financial statements.

SPONSOR COMPANY STOCK OWNERSHIP PLAN

Notes to Financial Statements

December 31, 20X2

1. Plan Description and Basis of Presentation

The following brief description of the Sponsor Company Employee Stock Ownership Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan Agreement for complete information.

The Sponsor Company (Company) established the Sponsor Company Stock Ownership Plan (Plan) effective as of January 1, 20XX. As of January 1, 20XY, the Plan was amended and operates, in relevant part, as a leveraged employee stock ownership plan (ESOP), and is designed to comply with Section 4975(e)(7) and the regulations thereunder of the Internal Revenue Code of 1986, as amended (Code) and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is administered by an Employee Benefits Administration Committee comprising up to three persons appointed by the Sponsor Company's Board of Directors. The trust department of an independent third-party bank is the Plan's Trustee.

The Plan purchased Company common shares using the proceeds of a bank borrowing (see Note 6) guaranteed by the Company, and holds the stock in a trust established under the Plan. The borrowing is to be repaid over a period of ten years by fully deductible Company contributions to the trust fund. As the Plan makes each payment of principal, an appropriate percentage of stock will be allocated to eligible employees' accounts in accordance with applicable regulations under the Code. Shares vest fully upon allocation.

The borrowing is collateralized by the unallocated shares of stock and is guaranteed by the Company. The lender has no rights against shares once they are allocated under the ESOP. Accordingly, the financial statements of the Plan as of December 31, 20X2 and 20X1 and for the year ended December 31, 20X2 present separately the assets and liabilities and changes therein pertaining to:

- (a) the accounts of employees with vested rights in allocated stock (Allocated) and
- (b) stock not yet allocated to employees (Unallocated).

Eligibility

Employees of the Company and its participating subsidiaries are generally eligible to participate in the Plan after one year of service providing they worked at least 1,000 hours during such plan year. Participants who do not have at least 1,000 hours of service during such plan year or are not employed on the last working day of a plan year are generally not eligible for an allocation of Company contributions for such year.

Payment of Benefits

No distributions from the Plan will be made until a participant retires, dies (in which case, payment shall be made to his or her beneficiary or, if none, his or her legal representatives), or otherwise terminates employment with the Company and its participating subsidiaries. Distributions are made in cash or, if a participant elects, in the form of Company common shares plus cash for any fractional share.

Under the provisions of the Plan, the Company is obligated to repurchase participant shares which have been distributed under the terms of the Plan as long as the shares are not publicly traded or if the shares are subject to trading limitations. During 20X2, the Company repurchased from participants XXXX shares at prices determined from the independent appraisal.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. The Trustee is not permitted to vote any allocated share for which instructions have not been given by a participant. The Trustee is required, however, to vote any unallocated shares on behalf of the collective best interest of plan participants and beneficiaries.

Plan Termination

The Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon such termination of the Plan, the interest of each participant in the trust fund will be distributed to such participant or his or her beneficiary at the time prescribed by the Plan terms and the Code. Upon termination of the Plan, the Employee Benefits Administration Committee shall direct the Trustee to pay all liabilities and expenses of the trust fund and to sell shares of financed stock held in the loan suspense account to the extent it determines such sale to be necessary in order to repay the loan.

Participant Accounts

The Plan is a defined contribution plan under which a separate individual account is established for each participant. Each participant's account is credited as of the last day of each plan year with an allocation of shares of the Company's common stock released by the Trustee from the unallocated account and forfeitures of terminated participants' non vested accounts. Only those participants who are eligible employees of the Company as of the last day of the plan year will receive an allocation. Allocations are based on a participant's eligible compensation, relative to total eligible compensation.

Vesting

If a participant's employment with the Company ends for any reason other than retirement, permanent disability or death, he or she will vest in the balances in his or her account based on total years of service with the Company. Participants vest 20 percent per year of service and are 100 percent vested after five years of service.

Put Option

Under Federal income tax regulations, the employer stock that is held by the Plan and its participants and is not readily tradable on an established market, or is subject to trading limitations includes a put option. The put option is a right to demand that the Company buy any shares of its stock distributed to participants for which there is no market. The put price is representative of the fair market value of the stock. The Company can pay for the purchase with interest over a period of five years. The purpose of the put option is to ensure that the participant has the ability to ultimately obtain cash.

Diversification

Diversification is offered to participants close to retirement so that they may have the opportunity to move part of the value of their investment in Company stock into investments which are more diversified. Participants who are at least age 55 with at least 10 years of participation in the Plan may elect to diversify a portion of their account. Diversification is offered to each eligible participant over a six-year period. In each of the first five years, a participant may diversify up to 25 percent of the number of post-1986 shares allocated to his or her account, less any shares previously diversified. In the sixth year, the percentage changes to 50 percent. Participants who elect to diversify receive a cash distribution.

Participant Accounts and Forfeitures

Employer contributions and Plan forfeitures are allocated to each participant's account based upon the relation of the participant's compensation to total compensation for the Plan year. Forfeitures

of terminated non vested account balances allocated to remaining participants at December 31, 20X2 and 20X1 totaled XXXX and XXXX, respectively. Plan earnings are allocated to each participant's account based on the ratio of the participant's beginning of the year account balance to all participants' beginning of the year account balances.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the plan are prepared using the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets, liabilities, and changes therein. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The common shares of the Company are valued at fair value on December 31, 20X2 and 20X1. Fair value is determined by annual independent appraisals.

Dividend income is accrued on the ex-dividend date.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method.

Operating Expenses

All expenses of maintaining the Plan are paid by the Company.

3. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated June 30, 20XX, that the Plan is qualified and the trust established under the Plan is tax-exempt, under the appropriate sections of the Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

4. Administration of Plan Assets

The Plan's assets, which consist principally of Sponsor Company common shares, are held by the Trustee of the Plan.

Company contributions are held and managed by the Trustee, which invests cash received, interest, and dividend income and makes distributions to participants. The Trustee also administers the payment of interest and principal on the loan, which is reimbursed to the Trustee through contributions as determined by the Company.

Certain administrative functions are performed by officers or employees of the Company or its subsidiaries. No such officer or employee receives compensation from the Plan. Administrative expenses for the Trustee's fees are paid directly by the Company.

5. Investments

The Plan's investments, at December 31, are presented in the following table:

	20X2		20X1	
	<i>Allocated</i>	<i>Unallocated</i>	<i>Allocated</i>	<i>Unallocated</i>
Sponsor Company Common Shares:				
Number of Shares	<u>1,069,000</u>	<u>1,759,000</u>	<u>1,074,000</u>	<u>2,055,000</u>
Cost	<u>\$27,014,000</u>	<u>\$74,456,000</u>	<u>\$29,910,000</u>	<u>\$80,000,000</u>
Market	<u>\$34,890,000</u>	<u>\$57,430,000</u>	<u>\$24,568,000</u>	<u>\$47,015,000</u>

6. Loan Payable

In 20XX, the Plan entered into an \$80,000,000 term loan agreement with a bank. The proceeds of the loan were used to purchase Company's common stock. Unallocated shares are collateral for the loan. The agreement provides for the loan to be repaid over ten years. The scheduled amortization of the loan for the next five years and thereafter is as follows: 20X3—\$6,500,000; 20X4—\$7,000,000; 20X5—\$7,500,000; 20X6—\$8,000,000; 20X7—\$8,500,000; and thereafter—\$36,470,000. The loan bears interest at the prime rate of the lender. For 20X2 and 20X1 the loan interest rate averaged 7.34 percent and 5.12 percent, respectively.

7. Employer Contributions

The Company is obligated to make contributions in cash to the Plan which, when aggregated with the Plan's dividends and interest earnings, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan.

Additional Publications for Your Financial Reporting Library

Checklists and Illustrative Financial Statements

Banks and Savings Institutions	No. 008913
Common Interest Realty Associations	No. 008903
Corporations	No. 008934
Defined Benefit Pension Plans	No. 008993
Defined Contribution Pension Plans	No. 009003
Employee Health and Welfare Benefit Plans	No. 009013
Health Care Organizations	No. 009023
Life and Health Insurance	No. 008954
Not-for-Profit Organizations	No. 008983
Property & Liability Insurance Companies	No. 008964
State and Local Governmental Units (Non-GASB 34 and GASB 34 Edition)	No. 009033

Supplements to Corporations Checklist

Construction Contractors	No. 008924
Investment Companies	No. 008944
Real Estate Ventures	No. 008974

Post Binder	No. 007921
-------------	------------

Audit and Accounting Guides — 2003 Industry Guides

With conforming changes as of May 1, 2003.

Audits of Agricultural Producers and Agricultural Cooperatives	No. 012683
Audits of Airlines	No. 012693
Brokers and Dealers in Securities	No. 012703
Audits of Casinos	No. 012713
Common Interest Realty Associations	No. 012573
Construction Contractors	No. 012583
NEW! Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies (Available 4/04)	No. 012733
Audits of Employee Benefit Plans (As of March 1, 2003)	No. 012593
Audits of Entities With Oil and Gas Producing Activities	No. 012653
Federal Government Contractors	No. 012603
Health Care Organizations	No. 012613
Audits of Investment Companies	No. 012623
Life & Health Insurance Entities	No. 012633
Not-for-Profit Organizations	No. 012643
Audits of Property and Liability Insurance Cos.	No. 012673
Audits of State and Local Governmental Units (Non-GASB 34 Edition)	No. 012563
Audits of State and Local Governments (GASB 34 Edition)	No. 012663
NEW! Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards	No. 012743

Audit and Accounting Guides — General Guides

Analytical Procedures (2001)	No. 012541
Audit Sampling (2001)	No. 012530
Auditing Derivative Instruments, Hedging Activities, and Investments in Securities (2001)	No. 012520
Auditing Revenue in Certain Industries (2001)	No. 012510
Consideration of Internal Control in a Financial Statement Audit (1996)	No. 012451
Personal Financial Statements (2003)	No. 012753
Prospective Financial Information (2003)	No. 012723
Service Organizations: Applying SAS No. 70, as Amended (2002)	No. 012772
Use of Real Estate Appraisal Information (1997)	No. 013159

To order call 1-888-777-7077, fax to 1-800-362-5066
or log on to **www.cpa2biz.com**

FASB Reference Library Add-On — Now Available!

AICPA RESOURCE: Accounting & Auditing Literature

Now you can be sure you're complying with the industry's latest standards with AICPA RESOURCE: Accounting and Auditing Literature. It's an electronic resource tool that combines the power and speed of the Web with comprehensive accounting and auditing standards. This tool gives you:

- **Access to AICPA and FASB library.** Each library gives you access to all titles at one **low** subscription fee.
- **Powerful Search Capabilities.** Search within a title, each library or both libraries.
- **Easy Navigation.** The table of contents menu always lets you know exactly where you are.
- **Personalized Access.** Information, tips, and research assistance is all at one place: **cpa2biz.com**
- **Timely Updates.** New standards and conforming changes are added to each library to keep your information current.

AICPA Reference Library includes:

- Professional Standards
- Current Audit and Accounting Guides
- Current Audit Risk Alerts
- Accounting Trends & Techniques
- Technical Practice Aids
- New pronouncements updated every 30 days

FASB Reference Library includes:

- Original and New pronouncements
- FASB Statements, Interpretations, Technical Bulletins and more
- Accounting Principles Board Opinions and Statements
- Emerging Issues Task Force (EITF) topical index and list of key terms
- Questions and answers from FASB Special Reports

AICPA Reference Library

1-year Individual Subscription

No. ORS-XX

AICPA Member \$395.00 Nonmember \$493.75

AICPA Reference Library with FASB Reference Library Add-on

1-year Individual Subscription

No. ORF-XX

AICPA Member \$890.00 Nonmember \$1,112.50

**For more information or to order, log onto
www.cpa2biz.com/AICPAresource, or call 1-888-777-7077**

Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA Accounting and Auditing Publications Team, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

Checklist Title: _____

Comments and Suggestions:

009004